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LETTERS

Island Fever

Mark J. Valencia was basically correct in proposing a revenue-sharing agreement for the dispute over the Spratly islands with Taiwan and China considered as one united front line [A **Spratly Solution**, THE 5TH COLUMN, Mar. 31]. But there are other difficulties.

Both Taiwan and China have for decades consistently delineated a U-shaped boundary line as the limits of the Chinese waters in the South China Sea. But Valencia's design would hardly be acceptable to the Chinese people. A so-called "Spratly Development Authority," with the Chinese governments of both Taiwan and China as co-owners of 51% of the shares, would only freeze the much-cherished sovereignty issue while legally giving away the remaining 49%.

The Chinese were realistic and moderate enough when they demarcated their U-shaped "historic water" outer limits in 1947. That line coordinates roughly with the medium line of the overlapping EEZ areas between China (as a whole) and her neighbouring states in that semi-enclosed sea area. We have to understand that when

the Chinese said they were willing to "suspend sovereign disputes" in the South China Sea, they did not mean to give up their sovereignty in the Spratly area.

KUEN-CHEN FU
National Assemblyman
Professor of Law
National Taiwan University
Secretary General
Chinese Society of International Law
Taipei

When in Rome

Your March 31 editorial **Different Strokes** about the punishment of an American vandal in Singapore shows that President Clinton's criticism and the strong protest from the U.S. Embassy are more excessive than the punishment itself. Indeed, America's treatment of foreigners who infringe American law can be more severe; the U.S. can do it simply because it is a superpower. As soon as some other country sentences an American citizen, however, the U.S. complains.

It is time the U.S. respected the law of others if it wants the same respect from them.

M. K. ISMADY
Champagne
France

As an Australian visiting Hong Kong, I am delighted with the wealth of information available from the media. The proposed caning on the buttocks of a young American by Singaporean authorities has been a particular subject of debate. President Clinton has condemned it. Singapore has defended it.

My research shows that, unlike most other democracies, neither of these two countries has ever bothered to sign the UN Convention on the Rights of the Child. That was four years ago!

If America now objects, why did it not do so when several Singaporeans were beaten black on the bottom in recent years. Is this a case of the pot calling the kettle black?

EARL K. WILKINSON
Hong Kong

Much of the discussion of the proposed flogging of the American teenager convicted of vandalism in Singapore overlooks certain basic realities. Those who defend

this barbaric form of punishment should ask themselves honestly whether Singapore would carry out this punishment if the offender were the son of a senior Indonesian general or Malaysian sultan. The answer to such a question would shed light on Singapore's true motives here.

The credible explanation, found in the sub-text of the debate, is that Singapore, in its role as the Asean branch of China, is acting as China's surrogate in teaching America a lesson about the dangers of its human-rights advocacy. The message sent is that human rights are basically irrelevant in Confucian societies. The alternative to public order is the nightmare ghetto world of America's inner cities.

Since Clinton has gone on record protesting the punishment, he should retaliate against Singapore should it carry the punishment out. The alternatives are many.

MARTIN J. SALGADO
Makati
Metro Manila
Philippines



Safe streets first.

Middling Truths

After reading your March 24 cover story **China: Looking at the World Darkly** where the Chinese word for "China" was translated as the "Middle Kingdom," I feel I must write to correct this centuries-old mistranslation. The actual meaning is not "Middle Kingdom" but "Central Nation." This latter is the correct translation, given that (ancient) China regarded herself as a nation in the centre — a centre of civilisation, centre of culture, centre of excellence, centre of learning, and so on.

The translation "Middle Kingdom" conveys an image of helplessness, as in, for example, the use of middle in the phrase "piggy in the middle." "Middle Kingdom" in this sense would mean a civilisation between two or more extreme forms of civilisation, as would middle of culture. But "Central" or "Centre Kingdom" conjures up an image of importance, where powerful forces radiate outwards. This is the meaning of the Chinese word.

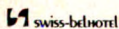
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All letters must include the writer's name and address and are subject to editing. Letters may be mailed to the Review, GPO Box 160, Hong Kong, or faxed to (852) 503-1530.

Richard Nixon, RIP

American interests — and Asia's — properly understood

It is perhaps a sign of Richard Nixon's complicated life that he always seemed most admirable in defeat and most petty in victory. Certainly he had his share of both. In 1960 he would lose the presidential election by a whisker (and perhaps by fraud) to John F. Kennedy, and two years later would be defeated in the race for governor of California. But Mr. Nixon never quit, and by 1968 he had finally triumphed over all his adversaries by capturing the White House, only to become, in 1974, the only president to resign from office.

Like most leaders of his generation, World War II impressed upon him the fragility of the world order and the importance for America to remain engaged lest it find itself reacting to more dangerous events earlier action might have prevented; these themes he would press the rest of his life. In domestic affairs he was always less successful, and not simply because of Watergate. Mr. Nixon's willing expansion of federal power, his imposition of wage and price controls and his severing of the Bretton Woods system of exchange rates all betrayed an ignorance of basic economics, all the more surprising in a man whose grasp of policy issues was otherwise so catholic.

There was also his anti-Communism. Mr. Nixon's critics have made much of his crude campaigning, such as the charge that his Senatorial opponent was "pink down to her underwear." Yet that alone cannot explain the animosity directed at the 37th president of the United States. Presidents Johnson and Kennedy, after all, were not without their own streaks of ruthlessness and personal peccadillos that were somehow more readily indulged. In truth much of the hatred directed at Mr. Nixon was for his role in bringing down Alger Hiss, a former high-ranking State Department officer accused of spying for the Soviets. In certain circles it perhaps rankled most that Mr. Nixon was proved right.

With Mr. Nixon's death have come further reflections on the significance of Watergate and the context in which it occurred: a nation in which almost no institution — the government, the church, the university, the family — was left untouched by the counterculture of the late 1960s and early 1970s. Moral relativism and national self-doubt set in, reaching full flower in a general crisis of legitimacy. Certainly Mr. Nixon's bungled attempt to cover up the burglary is indefensible, and it cost him not only the presidency but his reputation. But it is worth reflecting for a moment on the price paid by others, notably a South Vietnam whose only hope for life disappeared with a fatally weakened presidency. Mr. Nixon is no longer with us. But the War Powers Act and other expressions of Watergate indignation remain. From Bosnia to Somalia to Korea, those who depend on American resolution have reason to pray that the moral paroxysms of the Watergate era might now be laid to rest.

Within the region there is special appreciation for Mr.

Nixon, and it extends far beyond his critical role in opening China to the world. In sharp contrast to a White House that today projects its power on the basis of sentiment and abstraction, Mr. Nixon's foreign policy was ever fixed on his perceptions of American interests, which could lead him to detente with the Soviet Union, a rapprochement with China and an end to the war in Vietnam on as honourable terms as may have been possible. By no means was Mr. Nixon the foreign-policy wizard he is sometimes portrayed to be. But however much one might have disagreed with his perception of U.S. interests, he did not disdain them. And an Asia that has had unhappy experience of those who do has every reason to lament the passing of one whose counsel might have been counted upon to try to right the course. ■

Starvation Diet

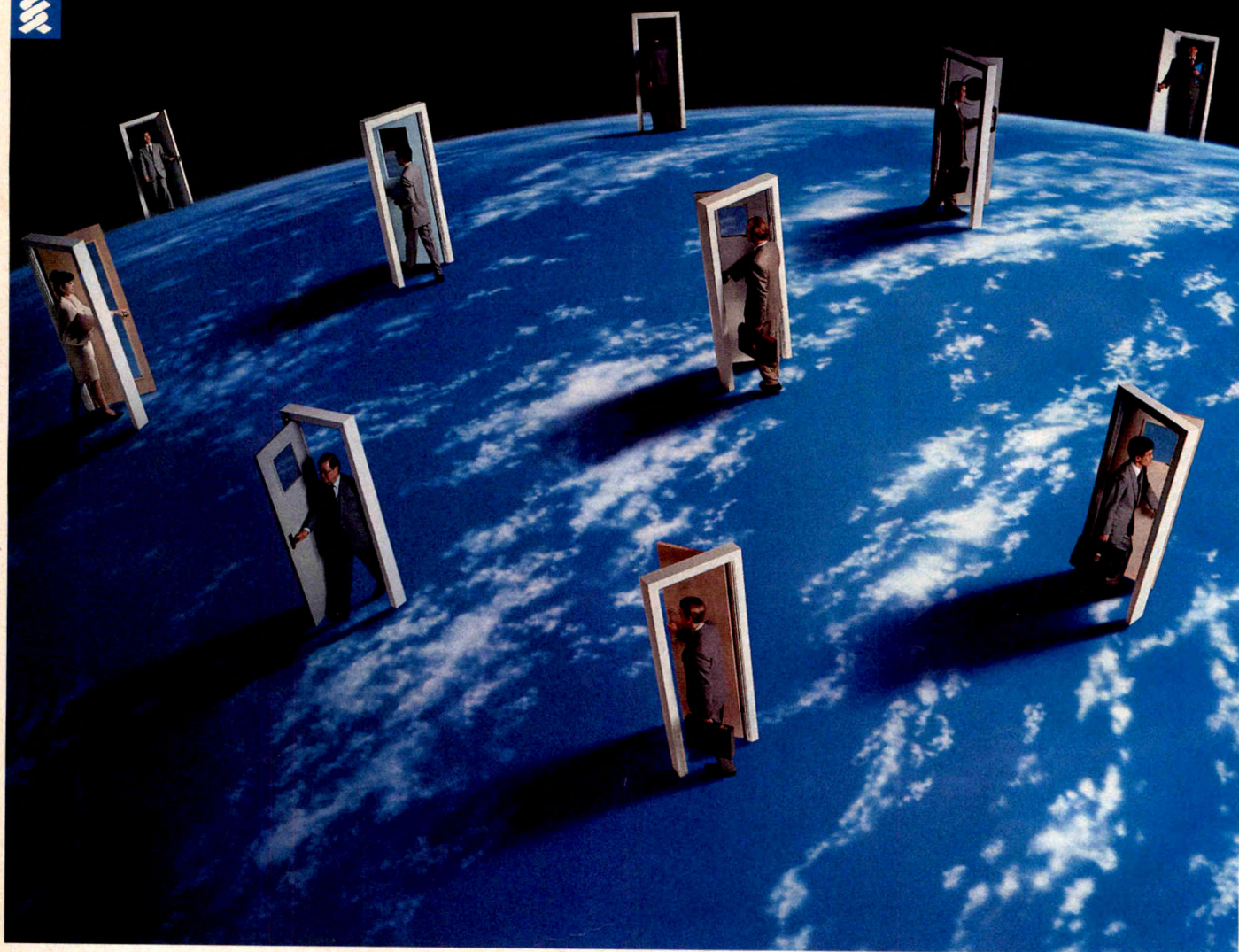
Hata and the bureaucracy

All prime ministers start with lofty declarations of purpose, and Tsutomu Hata is no exception. Before taking the oath of office (and losing his government), Japan's new prime minister vowed to deregulate the economy, reform the tax system and reduce its trade surplus. On paper this may work out nicely. In practice they represent a jumble of contradictions that have already provoked the withdrawal of the Socialists from Mr. Hata's fragile coalition.

Take tax reform. Long before questions over his personal finances finally brought him down, Mr. Hata's predecessor, Morihiro Hosokawa, was wounded by his attempt to ram through a new consumption tax deemed necessary by the Ministry of Finance. This larger tax was designed to replace a 3% value-added tax whose introduction a few years back had brought down other prime ministers. Yet rather than reconsider the tax, Mr. Hata's chief partners put out a statement stressing their idea of reform is to make every effort to win public "understanding" of the need for the new tax. Thus did the prime minister effectively pledge his allegiance to the bureaucracy even before taking office.

Mr. Hata, of course, does not put it this way. Like Mr. Hosokawa before him, he talks about deregulation. But for all the talk no Japanese Government has taken the first step towards the one thing that would be effective in paring back the bureaucracy: starving it of the funds and control that comes with the power to tax. Mr. Hosokawa's failure to grasp the connection prevented him from ever establishing himself as a leader. "I tried to use the power of the Ministry of Finance," said Mr. Hosokawa, "but instead they used me." In post-LDP Japan the politicians come and go. But the bureaucracy remains. ■

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Japan's Hata gets the premier's job — and a new set of problems. Page 14.



Securities analysts think Malaysia's stockmarket could rally this year. Page 70.

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COVER STORY

Japan's consumers were once famously willing to pay egregiously high prices for everything from beer to clothing. No more. As our Tokyo bureau reports, recession-induced austerity is speeding up a retailing revolution in which discounters are replacing small, traditional stores, bringing down prices that have long been the world's highest. Page 62.

Cover photo by Gerhard Joren

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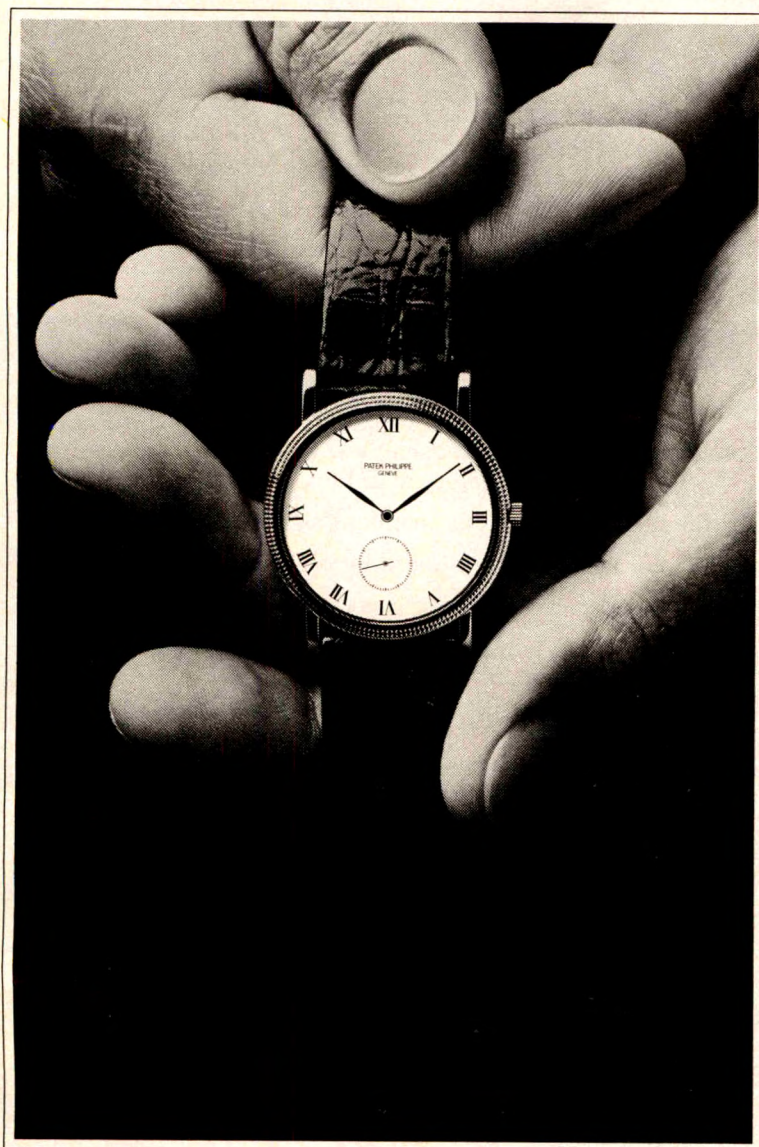
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Asia 1994 Yearbook

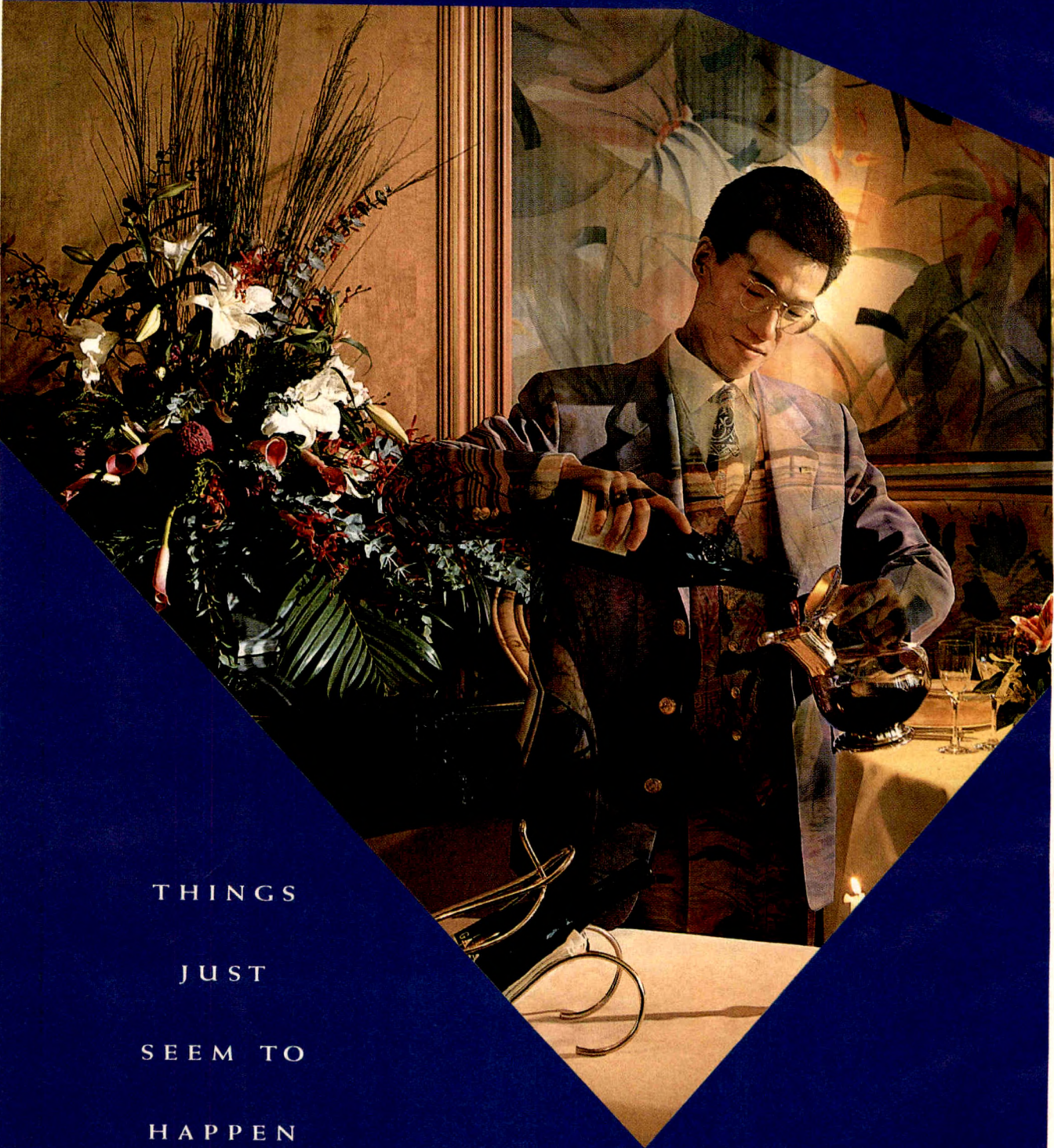
Published since 1959, the Review Yearbook is the indispensable guide to the major political and economic events of the year in Asia. The 1994 edition, US\$46 in hardback, US\$34 in paperback, includes coverage of 32 countries. Subscribers to the Review receive a 20% discount. Add US\$8 for shipping outside of Hong Kong.



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A photograph of a man in a patterned suit and glasses, pouring wine from a bottle into a glass. He is standing next to a large, elaborate floral arrangement featuring white lilies and red flowers. The background shows a wall with a large, abstract painting. The entire scene is framed by a dark blue diagonal shape.

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In Other Words

"We have a saying: If you don't drive a Mercedes, you haven't really gotten rich."

Kenneth Leung, editor-in-chief of *Car and Driver's* Hong Kong edition, on why so many people in the status-conscious colony drive Mercedes-Benzes.

"I'm going to do it for a while and make a load of money. Then I'm going to disappear."

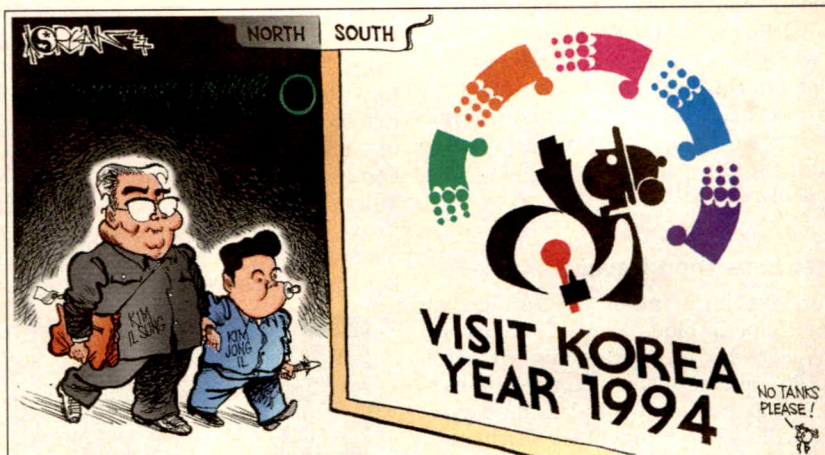
Wang Zheng, a 22-year-old Chinese singer, on his plans to become the first male impersonator of Madonna on Hainan Island's nightclub circuit.

"Run quickly."

Cambodian King Norodom Sihanouk, recounting Khmer Rouge leader Khieu Samphan's advice to him in the wake of the guerilla faction's promise to wreak "big trouble" in Phnom Penh.

"Do we want as an example in government a man who does not eat meat and who will not sleep with his wife?"

A Thai political observer, after Chamlong Srimuang said he might accept a cabinet position. Chamlong, a leader of the 1992 revolt against military rule, is a strict Santi Asoke Buddhist.



NEWS ITEM: IN A BID TO SOFTEN NORTH KOREA'S MILITANT STANCE ON THE NUCLEAR ISSUE, SEOUL HAS DROPPED A KEY PRECONDITION.

"We paid P15,000 (US\$545) for the boy. We just wanted her to prove that she is really the mother before giving him back."

Philippine lawyer Rosauro Bautista, explaining why he initially refused to return an eight-month-old baby he had bought on the black market to its mother. Employees at the Philippine Defence Department had sold the child after his mother left him as collateral for a phone call she had made at the department's offices.

"We're trying to learn to dance with the Asian tiger without getting swallowed by it."

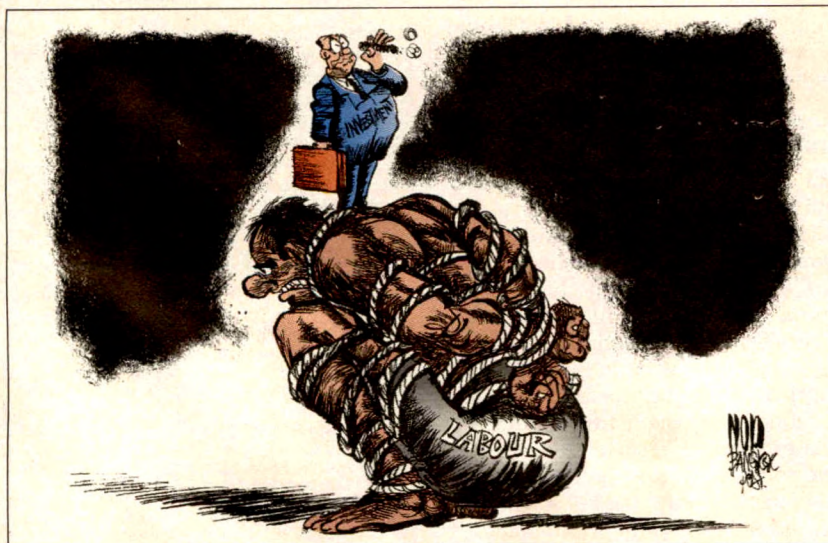
Alexander Kharitonov, a manager of the Enkai Business Centre in Vladivostok, on Russia's diminished influence vis-a-vis its Asian neighbours.

"Singapore is a good place — except for this."

Shiu Chung-on, after his teenage son was sentenced by a Singapore court to 12 strokes of the cane and eight months in jail for vandalism.

"I didn't necessarily succeed as a wife. Maybe we imitated today's marital-relationship."

Japanese politician Masayoshi Takemura, summing up his term as chief secretary to former Japanese Prime Minister Morihiro Hosokawa. Rather than supporting Hosokawa, Takemura became critical of him.



NEWS ITEM: LOW WAGES AND HIGH ECONOMIC GROWTH CONTINUE TO ATTRACT FOREIGN INVESTMENT TO THAILAND.

Nop/Bangkok Post

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INTELLIGENCE

Calling on Clinton

Malaysian Prime Minister Datuk Seri Mahathir Mohamad is believed to be keen on a meeting with U.S. President Bill Clinton when he pays an unofficial visit to Washington in early May. U.S. officials confirmed Malaysia has made informal requests for a meeting, but they are not sure if sufficient time can be carved out of the president's crowded schedule.

Better Late Than Never

An invasion of major U.S. retailers is taking shape in Hong Kong. Discount giant Wal-Mart, which earlier this year said it would announce its first expansion into Asia, is expected to reveal plans for a major outlet in Hong Kong's New Territories shortly. Not to be outdone, rival discount chain K Mart will follow Wal-Mart into Hong Kong's densely populated northern suburbs. Another imminent American entrant on the scene is Home Depot, the major hardware and home furnishings chain. U.S. department stores have been notable for their absence on the Asian marketing scene. Japanese retailers, by contrast, dominate the market in Hong Kong and some other Asian capitals.

Jobless Masses

China's vice-premier in charge of the economy, Li Lanqing, recently prepared a confidential briefing for China's State Council. Sources say that Li, an ally of Premier Li Peng, warned against the dual dangers of inflation and high unemployment facing the country. According to Li, more than 10 million were unemployed in China's major cities alone. His warning can be seen as indirectly highlighting the danger of losing preferential trading status with the U.S., which could aggravate the unemployment situation.

Spread the Risks

A source close to Malaysia's central bank says Deputy Prime Minister Datuk Seri Anwar Ibrahim may authorise up to three slots for deputy governors at the institution as part of a management shake-up. The increase in the number of deputy governors would end a long-standing practice of having only a single deputy governor serve under Bank Negara's governor. Anwar is considering having two deputy governors serve initially, with a third possibly to be added later. A hopeful to fill one of the spots is the Finance Ministry's deputy secretary-general of the treasury, Clifford F. Herbert.

Return of Revisionism

As Chinese Premier Li Peng prepared to visit Ulan Bator, diplomatic eyebrows have been raised by a Chinese army journal's publication of a revisionist history of Soviet-Japanese battles in the 1930s that seems to cast doubts on the legitimacy of Mongolian sovereignty. The article argues that it was Moscow, rather than Tokyo as previously supposed, which provoked such celebrated battles as Nomonhan or Halhyn-gol, where 75,000 Japanese troops were wiped out in an up-



Stalin had a 'Mongolia agenda.'

set victory by Soviet tanks. Soviet leader Joseph Stalin's objective, according to the current issue of the Chinese Defence Academy's publication *Military History*, was not to roll back Japanese advances in North China, but rather to expand the territory of a puppet state in Outer Mongolia. In post-1945 talks with his World War II "allies" from China's then-ruling Kuomintang, Stalin brushed aside Chiang Ching-kuo's claims for return of Outer Mongolia.

Vienna Waltz

New Delhi is not as uneasy as may pretend about a proposed meeting of political factions from both the Indian and Pakistan sides of disputed Kashmir, to be held in Vienna in early May. Four senior leaders of the All-Party Hurriyat Conference, an alliance of Kashmiri groups opposing Indian rule, were in New Delhi in late April holding preliminary talks, and it was left unclear whether they would be allowed to travel to Vienna. However, informed sources say the Indian Government is quietly footing the bill for pro-Indian factions in Kashmir to attend, and that the Vienna conference is becoming more like an indirect peace conference between New Delhi and the Kashmiri militants.

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No. 18

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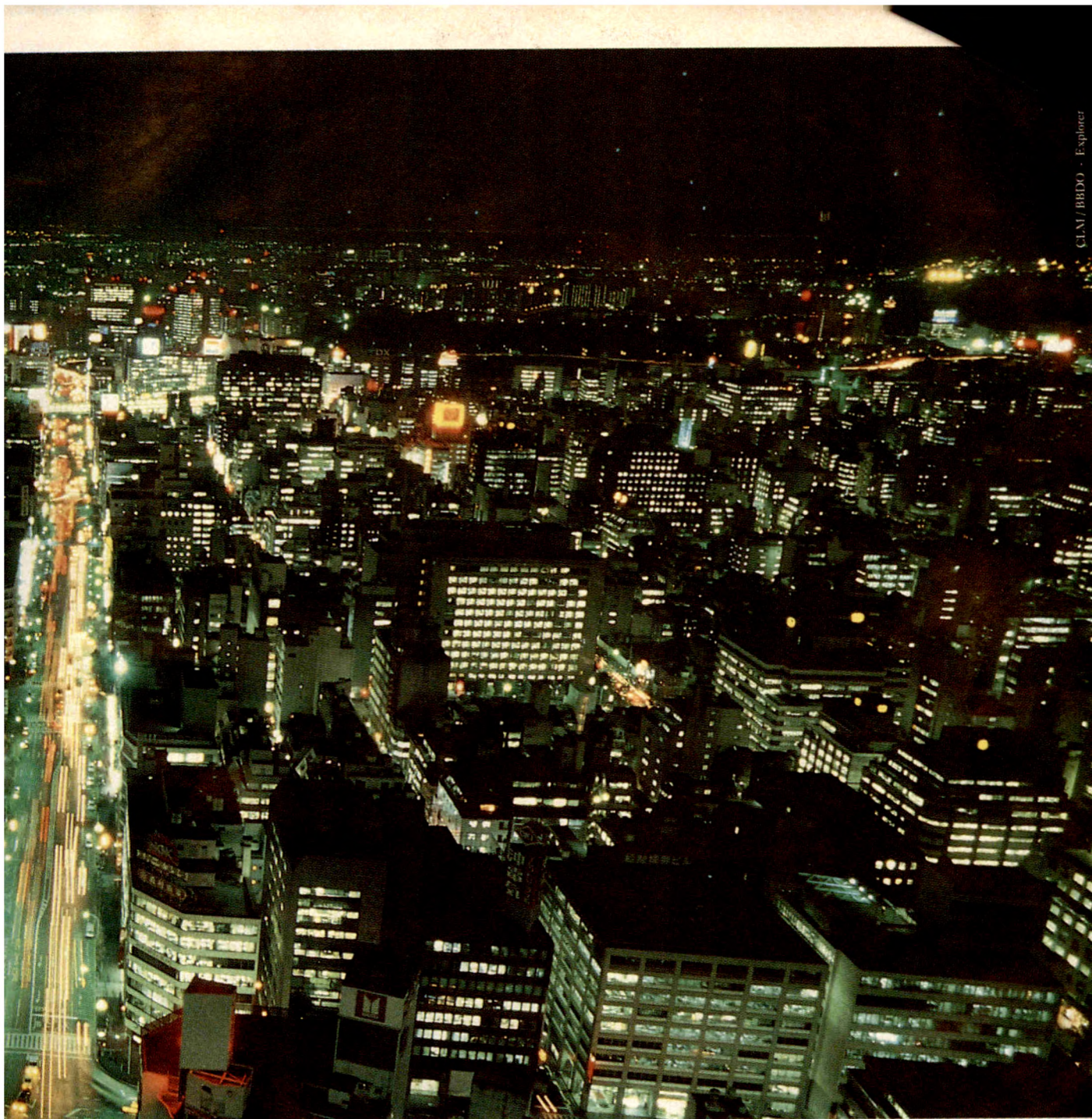
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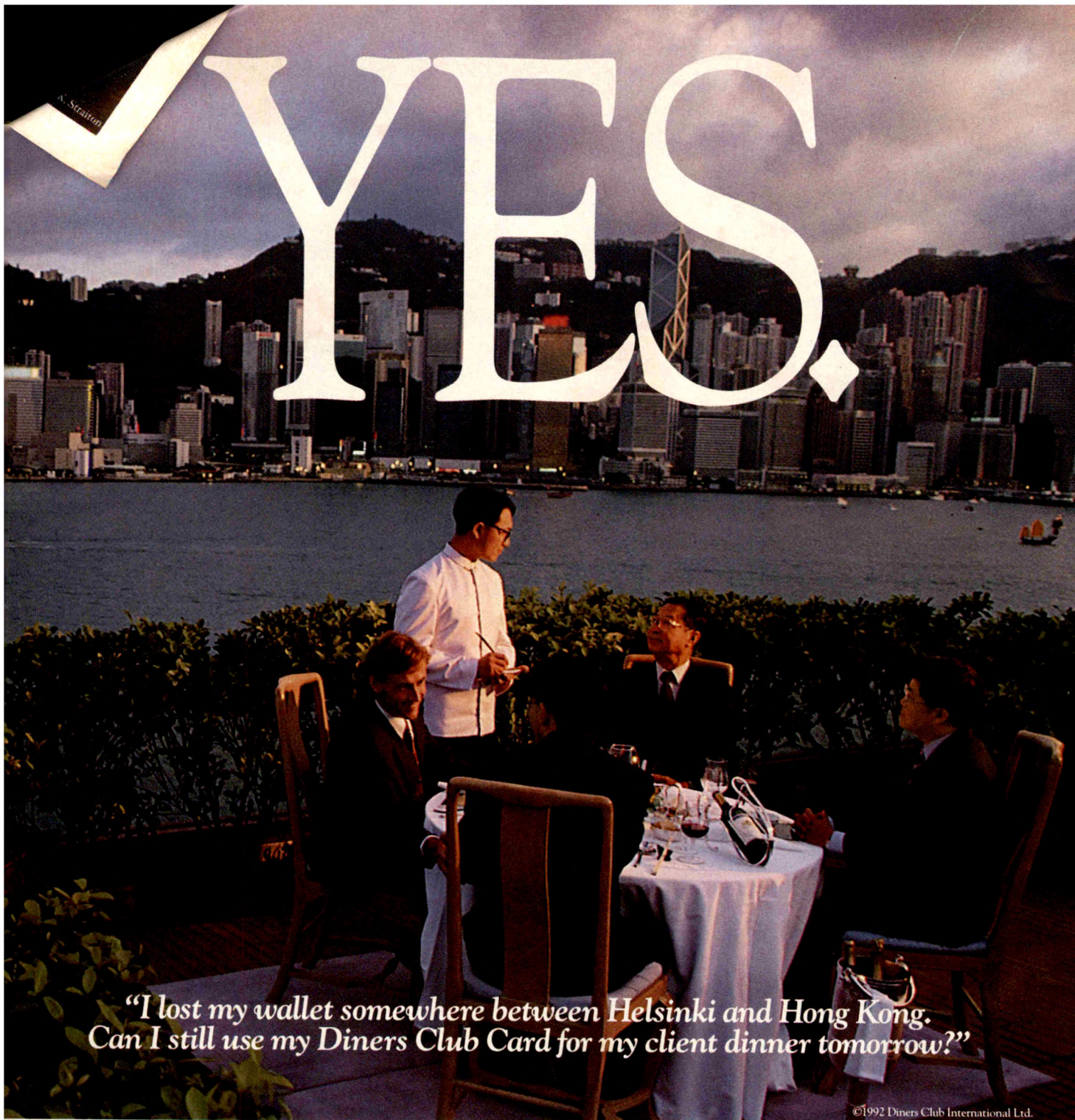
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REGIONAL BRIEFING

MALAYSIA

New King

Tuanku Jaafar Tuanku Abdul Rahman was sworn in on April 26 as Malaysia's 10th king since the constitutional monarchy began in 1957 with Malaysia's independence from Britain. His coronation will probably be held in July. King Azlan Shah stepped down on April 25 to make way for his successor under the country's system of rotating monarchs.

MiG29 Deal

Malaysia is close to completing the purchase of 18 Russian-made MiG29 fighter-jets, with the provision of a flight simulator remaining the only matter to be resolved before the US\$595 million deal is closed. Malaysia has also signed up to buy eight U.S.-made FA18 fighter-jets and 28 British-made Hawk 100 and 200 ground attack aircraft.

INDONESIA

Rallies Blocked

Police on April 24 broke up a student-organised meeting on East Timor and an anniversary celebration of the controversial Indonesia Welfare Labour Union in Jakarta, saying both lacked permits. Jakarta has been tense since riots with a strong anti-Chinese tenor broke out earlier this month in the Sumatran town of Medan following demonstrations by the union.

'Excessive' Reaction

Theo Sambuaga, vice-chairman of the Indonesian parliament's Foreign Affairs Commission, said China's reaction to the recent racial riots in Medan was excessive and might be considered meddling in Indonesia's internal affairs. China last week urged Jakarta "to immediately curb the demonstrations by workers in Medan, which led to anti-Chinese riots."



South Korea's forces will get more hardware.

SOUTH KOREA

Faster Arms Build-up

South Korea will buy U.S. equipment to accelerate its military build-up. The purchases will include McDonnell Douglas Apache attack helicopters outfitted with Maverick anti-tank missiles. Also on the buying list are radar systems to locate enemy artillery. Troops will get night-vision goggles and a global positioning satellite system to pinpoint their location during manoeuvres.

VIETNAM

Protest over Surveys

A spokesman for the Foreign Ministry in Hanoi on April 20 strongly protested against current "illegal" seismic surveys and preparations for test drilling in Vietnam's special economic zone and continental shelf by the U.S.-based Crestone Energy Corp. in a contract with China.

Repatriation Plans

Sadako Ogata, the UN high commissioner for refugees (UNHCR), in Vietnam on an official visit from April 24-30, said plans had been prepared for the repatriation by the end of 1995 of most of the 60,000 Vietnamese refugees still in camps in foreign countries. The UNHCR would try to

provide financial assistance to the 1994-95 repatriation programme, Ogata said.

INDIA

Missile Freeze

New Delhi has halted development of its 2,500-kilometre range Agni ballistic missile after three test flights by simply refusing a further Rs 500 million (US\$19 million) in funding requested by

defence scientists. Prime Minister P. V. Narasimha Rao denied the funding decision was made under pressure from the U.S., which sees the Agni as a destabilising factor in South Asia.

TAIWAN

Radio Pirate Charged

Prosecutors have subpoenaed Hsu Jung-chi, owner of the Voice of Taiwan, an illegal radio station popular with Taipei taxi drivers. Police confiscated the station's equipment, but it was quickly back on the air with a spare transmitter. The government says Hsu used his station to rally hundreds of people to protest at the tearing down of the ruling Kuomintang's old headquarters building in mid-April.

PAKISTAN

Provincial Politics

Aftab Ahmed Sherpao of the Pakistan People's Party (PPP) became the new chief minister of the North-West Frontier Province on April 24 after winning a vote of confidence in the provincial assembly by just two votes. The opposition alliance boycotted the proceedings. The assembly was recalled after a decision by the Supreme Court. Presidential rule was imposed in the province three months ago after a crisis developed when the PPP tried to depose the incumbent provincial government.

JAPAN

Probe Ended

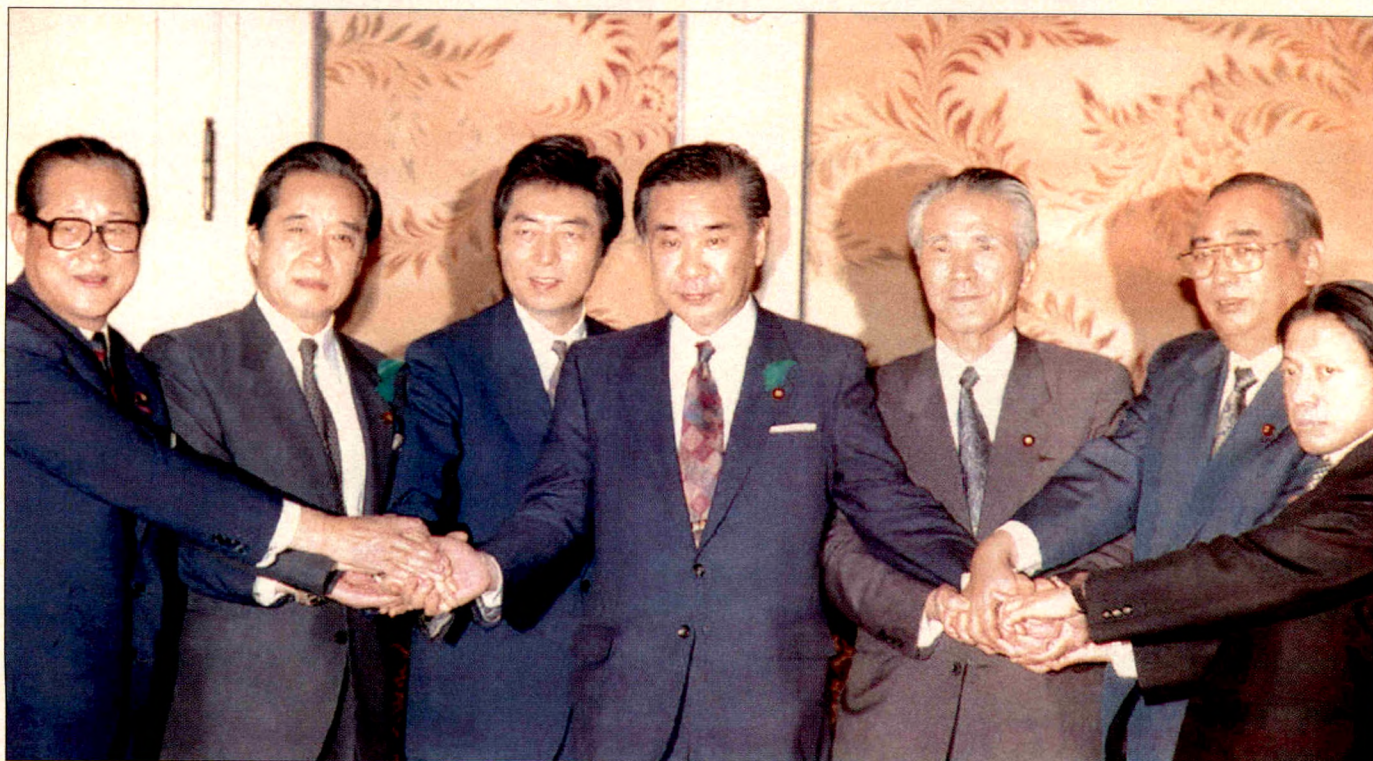
A special investigation team of the Tokyo District Public Prosecutor's office announced on April 25 that it would disband its 10-month probe into links between Japanese general contractors and politicians.

Indicators

Percentage of urban population in slum/squatter settlements for selected Asian countries (latest available year)



* Living in villages
Source: United Nations



Hata (centre) gets the prime minister's job but all he may end up leading is a lame-duck government.

J A P A N

Shackled Premier

After choosing Tsutomu Hata to head the government, Socialists defect from the coalition — leaving the regime's survival at the mercy of the opposition.

By Charles Smith in Tokyo

At first, it looked as if the country's warring politicians had finally managed to close ranks behind a new leader. After two weeks of wrangling, the eight parties making up Japan's ruling coalition reached agreement on April 22 on a policy platform that would enable them not just to pick a prime minister but to tackle some of the problems, ranging from tax reform to deregulation, that have confronted the country for the past year.

Hopes rose further on the morning of April 25 when former Foreign Minister Tsutomu Hata was elected to the premiership with a comfortable majority in both houses of parliament. But it was not to last.

Less than 24 hours after his election, the defection of the Social Democratic Party of Japan (SDPJ) — the coalition's biggest group — appeared to have cost Hata his lower house majority. That meant that he had

slim hopes of forming a cabinet that would be able to do much more than passing the long overdue 1994 budget.

"Hata's chances of surviving until the end of this year are minimal unless the opposition Liberal Democrat Party [LDP] decides to leave him there on sufferance," said a diplomat. "The atmosphere has darkened, not cleared, since Hata succeeded [former Prime Minister Morihiro] Hosokawa as leader."

The problems surrounding Hata's appointment were not of his own making. Instead they resulted from what seems to have been a premature attempt by his close political ally, Ichiro Ozawa, to forge a parliamentary alliance that could dominate the coalition. The Ozawa-sponsored alliance, named Kaishin after a 7th century coup designed to eliminate a group of powerful mandarins and restore power to the emperor of the day, was meant to split the Left-leaning SDPJ and attract some of its

members into partnership with the Japan Renewal Party, led by Hata and Ozawa.

What actually resulted from the move was the entire SDPJ's defection from the coalition — leaving Kaishin with 130 members, far short of a majority in the 511-seat lower house. A proposal to dissolve Kaishin and invite the socialists back into the coalition was mooted. But even if they were to do so, the chances of any policy cohesion appeared minimal.

The tragedy of the Ozawa move, said analysts, was that Hata could have made an above-average prime minister. A veteran politician with experience in several key ministries, Hata was widely seen as having the expertise as well as the personality needed to resolve some of the policy problems that defeated Hosokawa.

"He is a unique example of an experienced politician with the honesty and common sense of an ordinary man," said political commentator Minoru Morita. But Hata's common sense was not enough to keep him abreast of a series of moves in the political world that preceded his election as premier and quickly ripened into a full-blown crisis after his appointment. In

particular, say analysts, he was not aware that Ozawa and departing Prime Minister Hosokawa had virtually agreed in the week before Hata's election on a merger of the rightwing Japan Renewal Party (headed by Hata himself) and Hosokawa's Japan New Party.

Hata also seemed to have been kept in the dark about secret talks between Ozawa and Keigo Ouchi, leader of the small Democratic Socialist Party, that began on June 23, the day following the drafting of a joint policy platform by the coalition. In the talks Ouchi — hitherto a member of the coalition's left-leaning faction — undertook to join Kaishin and to take the lead in formally proposing the group to other party leaders. Ouchi in return extracted a promise that the Democratic Socialists would be allocated two cabinet posts, instead of one, in the Hata cabinet.

The neo-Buddhist Komei party, usually regarded as a close Ozawa ally, was left out of the initial negotiations on forming Kaishin, but commentators described this as a tactical move, designed to placate critics in other parties who are suspicious of Komei's close links with the militant Soka Gakkai Buddhist sect. Komei, with 52 members in the lower house, was expected to join the group soon after its establishment. Other recruits to Kaishin included a dozen or so reformist former members of the opposition LDP who had quit the party during the weeks following Hosokawa's resignation.

Sources close to Ouchi and Ozawa claimed that the original intention in launching Kaishin was to build a single parliamentary group including all eight members of the original coalition. A united parliamentary alliance could have been expected to collaborate more effectively than eight disparate parties against the opposition LDP at the next general election.

The formation of Kaishin was also in line with an Ozawa strategy — explained in a recent book — to reshape Japan's traditional multi-party system into a two-party system based on Western models. But Nobumichi Izumi, a political editor at the *Nihon Keizai Shimbun*, dismisses these arguments as window dressing.

The real aim, said Izumi, was to split the SDPJ, the coalition's largest and Left-leaning member, with 74 seats in the lower house. If this had worked it could have

created a parliamentary majority for a revamped coalition, minus the SDPJ's leftwing membership.

Izumi believes that, by including the Democratic Socialists in his parliamentary alliance, Ozawa also hoped to drive a wedge between the major labour unions comprising the Japan Trade Union Confederation (Rengo). Rengo President Akira Yamagishi played an active role in putting together the first coalition cabinet in the summer of 1993, but had gradually drifted into the ranks of the opposition. Yamagishi described the formation of Kaishin as a "betrayal" and a "transparent attempt to exclude the socialist party from power."

The row over the Kaishin plan left the Hata government ill-placed to tackle major issues facing Japan, such as the cutting of a deal with the United States over bilateral trade issues or the introduction of a major tax reform. However, most commentators felt Hata would at least be able to pass the 1994 budget. The SDPJ promised co-opera-

Fractured Politics

Party strength in lower house

LDP	206
Kaishin	130
SDPJ	74
Komeito	52
Sakigake	15
JCP	15
New Party Mirai	5
Group Seiuin	3
Independents	9
Vacancies	2
Total	511

Note: Kaishin groups five parties and groups — Shinseitō, the Japan New Party, the Democratic Socialist Party, Jiyutō (Liberals) and Kaikaku no kai.

Source: *Daily Yomiuri*



CAMBODIA

Untactical Retreat

Government limps back to the negotiating table

By Nate Thayer in Phnom Penh

If anyone still sleeps with a volume of Mao's works under his pillow, it's the Khmer Rouge commander at Pailin. He pulled a dictum right out of *A Short History of Guerilla Warfare* when faced with an onslaught by the Cambodian army: "The enemy advances, we retreat; the enemy camps, we harass; the enemy tires, we attack." The result was the triumphant recapture of Pailin by the guerilla faction, forcing the humiliated government back to the negotiating table five months after it dropped peace talks to launch a nationwide military offensive against the Khmer Rouge.

The failure of the dry-season military campaign, which cost hundreds of lives and drained limited government resources, demonstrated Phnom Penh's inability to destroy the Khmer Rouge militarily. With peace negotiations now due to resume on May 2 in the Cambodian capital, the guerilla group finds its chances of joining the government through political compromise greatly enhanced.

The Khmer Rouge recaptured Pailin, its nominal headquarters, on April 20, a month after the government had seized the western Cambodian gem-mining town and declared that the rebels were vanquished. The guerilla victory followed a similar military turnaround in February at Anlong Veng, the Khmer Rouge northern headquarters, which government troops captured, then lost within days.

In both cases, the guerillas engineered a tactical retreat, avoiding any significant casualties and removing their military equipment to secure jungle locations. They then disrupted government supply lines and counter-attacked, inflicting hundreds of casualties on trapped and fleeing soldiers. The failed operation seriously demoralised the government army, which suffered several hundred casualties and lost a number of tanks at Pailin. In addition, the episodes soured Phnom Penh's delicate relations with neighbouring Thailand, which angrily denied accusations that Thai troops along the border had aided the Khmer Rouge.

With the onset of monsoon rains effectively ending the army's campaign season by making jungle roads impassable for

heavy equipment, the Khmer Rouge controls virtually all the strategic territory it held at the start of the Phnom Penh offensive in December. The government, for its part, finds itself limping back to the negotiating table.

Both sides have agreed to attend peace talks in Phnom Penh from May 2-7, in response to an appeal from King Norodom Sihanouk. The round-table talks will be held at the Royal Palace under the chairmanship of the ailing monarch, who recently returned from China after treatment for cancer. Sihanouk, who is viewed as the only neutral figure with the standing to broker an accord, holds that an agreement involving all the warring factions is the only way to end the conflict. Palace sources say he favours a solution that includes a substantive role for the Khmer Rouge in both the government and army.

Numerous obstacles to an accord loom, however. The government is threatening to pass legislation officially outlawing the Khmer Rouge, which would mean the faction's representatives would have to flee the capital to avoid arrest. The Khmer Rouge, meanwhile, is threatening to escalate the fighting throughout Cambodia's interior.

Sihanouk nonetheless hopes to convince the government to agree to a power-sharing deal, palace sources say. Though the Khmer Rouge has rejected any preconditions for the talks, it is expected to focus on proposals to give the faction some key cabinet and military posts in return for laying down its arms and opening areas under its control. The faction's position will be bolstered by the failure of Phnom Penh's dry-season offensive, which convinced many analysts of the futility of trying to solve the Khmer Rouge problem by military means.

Even the Vietnamese army, which mounted a much more forceful offensive against the Khmer Rouge headquarters in 1985, was unable to clear the entire area of guerrillas, who were able to slip over the nearby border into Thailand. The Khmer Rouge retook the area shortly afterwards.

Sihanouk's peace initiative comes against a backdrop of escalating insecurity across Cambodia, with robberies and skirmishes on the country's main highways a daily occurrence. Four Westerners have been taken hostage by gunmen in recent weeks, leading several embassies to issue stern travel warnings. Aid workers have been pulled back from the countryside and United Nations agencies have banned travel on previously safe highways.

The setbacks come at a time when the

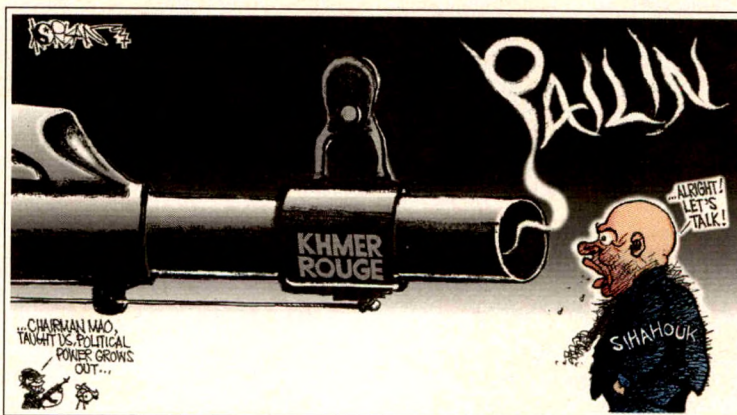
government is being closely watched by investors, international aid donors and its own constituents to see whether it can solve the problems still plaguing Cambodia after the departure of the UN, which spent US\$2 billion organising elections held in May 1993. The government produced by those elections — a shaky alliance of former battlefield enemies — is trying to encourage investment and the disbursement of nearly a billion dollars pledged by foreign donors for reconstruction.

The Khmer Rouge battlefield victories were less a reflection of the faction's strength than of the government's ineptness, according to diplomats. Many gov-

ernment field commanders had warned their political leaders that the military campaign was unwinnable, but the Phnom Penh leadership refused their counsel. Frontline soldiers complain of no pay for months, no medicine for the wounded, a shortage of food, and the inability of their commanders to evacuate casualties from the mountainous jungle terrain where the Khmer Rouge has its strongholds. Supply lines to Pailin and Anlong Veng were left undefended.

"It was a disaster waiting to happen. Anyone with even the most basic military training could have predicted with certainty that they wouldn't hold the area," said one senior Western diplomat. "This is just a bad army."

Indeed, the Khmer Rouge pulled its troops and equipment out of both its strongholds long before the government arrived. "They packed their bags, locked the front door, and left quietly," said one Western military observer who visited both areas while they were briefly under government control. "Then they cut them off, wiped them out, and walked back in." ■



War of Words

Several senior Thai Foreign Ministry officials were packing their bags for a pleasant three-day sojourn at the Thai seaside resort of Pattaya when the word came from above: forget the Asean meeting in Pattaya, you are staying in Bangkok.

Reason: the officials needed to be on hand for the ongoing spate of recriminations between Thailand and Cambodia. Phnom Penh leaders had for more than a week been accusing the Thais of helping the Khmer Rouge on the mutual border as Cambodian troops captured the Khmer Rouge stronghold of Pailin. Thai military chiefs and other officials had retorted angrily that there was no such support, and that Bangkok's policy was to back the coalition government in Phnom Penh.

On April 19, Pailin was retaken by Khmer Rouge forces and the war of words intensified. Phnom Penh's Second Prime Minister Hun Sen was quoted as accusing the Thais of assisting the Khmer Rouge in the counter-strike, and threatened to take the issue

to the United Nations Security Council.

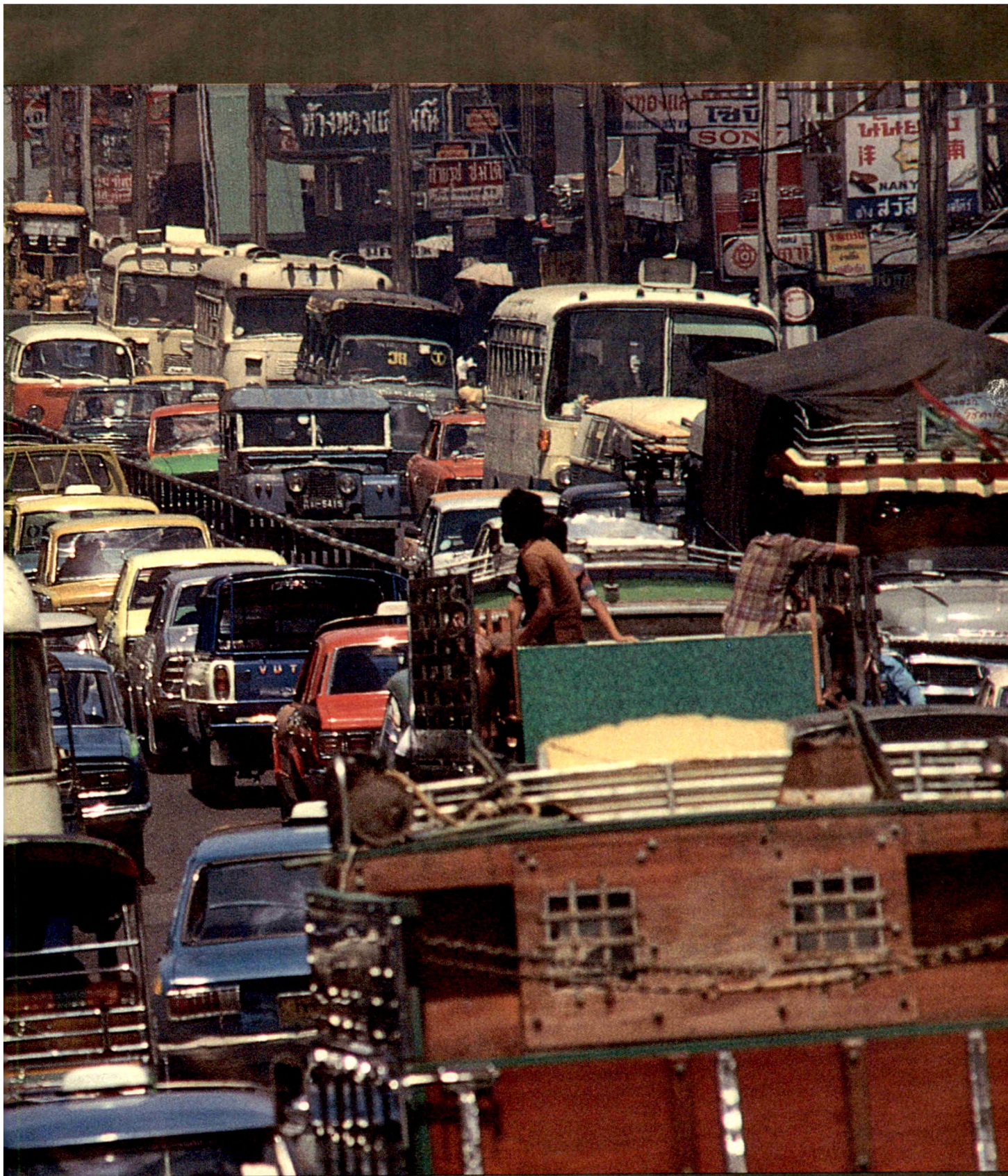
The Thais retorted that they would take their own case to the UN, and Thai Army Commander Gen. Wimol Wongwanich, not known for his diplomatic remarks, let fly. Thailand would respond to Phnom Penh's taunts with "an eye for an eye... there are limits to our patience," he was quoted as saying.

Wimol said the Thais might reduce their humanitarian assistance to Cambodia if the flow of invective from Phnom Penh continued. And he referred mysteriously to a "third country" as being behind the smear campaign. It was not immediately clear to whom he was referring, but military sources said he meant Vietnam — a traditional bugbear of the Thai military.

Prime Minister Chuan Leekpai backed the military, saying, more diplomatically: "We are forced to hit back at Cambodia because we have to clear ourselves of such allegations." He said Phnom Penh leaders might be listening too much to their military after their humiliation in Pailin.

By week's end, it seemed the verbal skirmishing was cooling and that there were no plans to bring the UN into the fray. But Thai Foreign Ministry officials were still placed on alert.

■ Rodney Tasker



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TAIWAN

Lee-ward Drift

Ruling party agrees to direct presidential elections

By Julian Baum in Taipei

No one witnessing the recent central committee meeting of Taiwan's ruling party could doubt that the power of its once-formidable conservative wing has collapsed. Even former Premier Hau Pei-tsun, a hardline stalwart, raised his hand to approve the direct election of the president by popular vote, a proposed constitutional change that he and other senior party leaders had strongly resisted when it was first mooted by President Lee Teng-hui two years ago.

The proposal, calling for the president and vice-president to be "elected by the people of Free China directly" as a team, was passed by the Kuomintang (KMT) Central Committee on April 24 with an overwhelming 197 of 214 delegates voting in favour. There was hardly a murmur of debate and no poll of "nay" votes.

In another sign that the KMT is marching to a new tune, a strong majority of committee members approved another measure that would remove the premier's constitutional right to countersign the appointment and dismissal of personnel by the president. Hau and some other senior KMT



Their election hope is likely to come true.

leaders did not vote for the proposal, which critics say further inflates presidential power and pushes Taiwan towards a presidential form of government.

"The consensus reached during this meeting was only a small step in revising the constitution," Lee told the party gathering after the voting. "An even more challenging battle," he said, lies ahead at the National Assembly, which convenes starting on May 2 to ratify the eight constitutional amendments recommended by the KMT. It is virtually certain that the assembly will pass the amendment mandating

direct presidential elections, however. With strong popular support for the idea, which was first proposed by the pro-independence Democratic Progressive Party (DPP) four years ago, ruling party conservatives had little hope of blocking it despite their preference for parliamentary-style government.

The one proposed amendment defeated in the central committee session was a measure that Lee did not support — a proposal to make elected lawmakers legally liable for speeches in the legislature. A proposal made from the floor by former Premier Lee Huan, however, passed by one vote. It would allow citizens living abroad to vote in Taiwan's elections by absentee ballot. In an attempt to placate restive minority groups, delegates also approved changing the constitutional reference to aboriginal natives from "mountain compatriots" to "original inhabitants."

Among the proposals that never made it through the KMT's tightly controlled screening process was a move to establish a super-legislature by combining the National Assembly and the Control Yuan with the Legislative Yuan. Opposition party members who favour this radical revision, which would greatly strengthen the legislative branch against the executive, claim it has wide support within the ruling party. But Lee has refused to consider it, saying he wants no further substantial changes to the constitution.

"In my view, President Lee is actually heading down this road," commented a

Nagging Doubts

As the Chinese authorities prepare for the trials of three young men accused of killing 32 people on a pleasure boat in Zhejiang province in late March, Taiwan's scepticism about the case has not diminished.

Taiwanese officials are gratified that the tragedy has won attention from China's top leaders. Chinese Premier Li Peng described the murder of the group, including 24 Taiwanese tourists, as "a heinous criminal offence," reversing earlier descriptions of the incident by local officials as an accident. Party chief Jiang Zemin reportedly called for a complete investigation as early as April 4.

Yet, few believe that the three men in their early twenties who have been accused of robbery and murder are the real

culprits. Taiwan's top intelligence officer testified to the legislature that at least eight members of the Chinese security forces were involved, according to intelligence sources.

Chinese officials have promised a briefing to the victims' relatives, who are among those most sceptical of the official version of what happened. Taiwanese reporters are likely to be allowed to attend the trials along with the families. Beijing officials have also offered to brief a Taiwanese delegation, including representatives from the semi-official Straits Exchange Foundation and forensic experts from Taiwan.

But since most of the evidence has already been destroyed, observers doubt it will be possible to make an independent

evaluation. Government officials are worried that any delegation sent to China could be used to endorse the official version of the crime. Taiwan's delaying tactic has been to ask for more information before making final arrangements for new cross-strait meetings. Travel agents say that their boycott of tours to China remains in effect until further details of the case are revealed.

Meanwhile, the Taiwan Government is trying to calm anti-China sentiment, which reached a fever pitch in the weeks after the incident on March 31 with opinion polls showing a doubling of support for Taiwan's independence to 27% of those surveyed. Minister of Economic Affairs P. K. Chiang has announced that his office has resumed screening applications for indirect investment in mainland China, after a brief suspension.

■ Julian Baum

No Entry

Chamlong rebuffed in bid to join cabinet

By Rodney Tasker in Bangkok

Chamlong Srimuang's trademark garb is a dark blue traditional shirt or a peasant's smock. To many Thais, those are the vestments of a knight in shining armour, for that is their image of Chamlong. Indeed, the popular politician's reputation has suffered surprisingly little tarnish despite a recent setback in his plans to ride into the cabinet. Had the manoeuvre succeeded he would have been well on the road to eventual premiership, analysts say.

Incumbent Prime Minister Chuan Leekpai may have had that prospect in mind when he rebuffed Chamlong's bid to join his cabinet. The two men are rivals for the moral high ground in Thai politics, and Chuan might prefer that Chamlong ride into the sunset of political obscurity instead.

The crew-cut Chamlong, a former army general and popular two-term governor of Bangkok, was supported by his Palang Dharma party in his cabinet bid. Chamlong founded Palang Dharma in the late 1980s, while still Bangkok's governor, and has since seen it mature into a powerful partner in Chuan's five-party coalition.

A day before his conditions for joining the cabinet were turned down by Chuan, Chamlong told the *REVIEW*: "If I keep saying no [to a cabinet position] it would mean I don't have any responsibility to my nation. I have to take a big risk to join the cabinet, but there is no choice for me."

After the last general election in September 1992, Chamlong said he refused to accept a cabinet position "because we have just had the May event." He was referring to the bloody confrontations between troops and pro-democracy protesters on the streets of Bangkok that year during which he emerged as the effective leader of those who forced the resignation of the military strongman and then prime minister, Suchinda Kraprayoon. But his comments at the time, he said, "didn't mean I wouldn't join the cabinet all my life — that's not politics . . . that's not me, Chamlong."

The Chuan administration is currently facing a concerted effort to topple it by the opposition, which is backed by the Senate in thwarting the government's bid to legislate amendments to the constitution. It is also being painted by the media and assorted pundits as a do-nothing administration. Recruiting the charismatic Chamlong, acclaimed for his honesty and identifica-



The time is not right for Chamlong.

tion with the man on the street, would have provided some much-needed credibility. The question for Chuan and his other coalition partners was: at what price?

The prime minister and his core Democrat Party colleagues apparently found it demeaning that Chamlong was going public with his conditions for entry into the cabinet. When Chuan and Chamlong discussed the proposal on April 25, the prime minister insisted that Chamlong join the cabinet first and discuss his conditions later. Chamlong told the press after the meeting that this was not acceptable and he was dropping his cabinet entry plan.

Chamlong had set three conditions. First, he wanted a reshuffle of the 10 ministerial portfolios held by Palang Dharma members, though without any change in party member Prasong Soonsiri's hold on foreign affairs. Second, he wanted the post of traffic overlord of Bangkok, with a single public company constituted to handle mass-transit projects. Third, the government had to agree to revamp the Bangkok bus service.

There was no problem with Chamlong's first condition. Chuan has said all coalition parties are free to change their representatives in the cabinet as they wish. But political sources say Chuan was worried about Chamlong's insistence on becoming a high-profile traffic supremo. This, it was thought, threatened to accentuate

Democrat-Palang Dharma rivalry in the capital. The Democrats made inroads into Palang Dharma's main electoral bailiwick of Bangkok in the last election, when Palang Dharma's Bangkok seats were reduced from 32 out of a possible 35 to 23. Nationwide, Palang Dharma notched up 47, compared with the Democrats' 79.

Bangkok's traffic woes and the government's faltering steps to tackle them are a major issue, not just in the capital but nationwide. If the Democrats had agreed to Chamlong replacing his official party chief, Boonchu Rojanastien, as deputy prime minister, with total power to sort out Bangkok's traffic mess, it would have reflected on the government's failure so far. If Chamlong was perceived to be succeeding in his task, it was bound to garner him and his party votes at the next election.

Asked by the *REVIEW* about his inclusion of Bangkok traffic in his "non-negotiable" conditions to join the cabinet, Chamlong points out that the government has only another two-and-a-half years at most before the next election. "It's the only thing I can tackle in the short term." He says he has been offered "many" ministerial positions, but Boonchu's deputy premiership, which already carries with it a mandate to oversee mass-transit projects, "is the only job which has some meaning."

"We have to take care of the nation," says Chamlong, "we have to solve the traffic problem — we have tried for 20 years. So the only thing left is to have a public company, belonging to the people. That's the answer." Chamlong said Bangkok's traffic gridlock affected not only the city's residents but also the incomes of people throughout the country.

There has been speculation in some quarters that if Chamlong's conditions were turned down and he was prevented from joining the cabinet he would withdraw Palang Dharma from the coalition. There is known to be a faction in the party which is unhappy to be in a coalition which is viewed as sinking. But when asked if Palang Dharma would remain with the coalition, with or without his personal participation, Chamlong answers with an emphatic "yes, sure."

As only de facto leader of Palang Dharma — having stood down as official chief during the May 1992 affair — Chamlong is in no position to give such an unequivocal assurance. Yet he undoubtedly has more clout in the party than official leader Boonchu. Now he evidently wants to tend more to his national image, whether in or out of the cabinet. As one party insider said when asked if Chamlong wanted to be the next prime minister: "Of course, one hundred per cent." ■

How to avoid getting bogged down



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KMT lawmaker from southern Taiwan attending the central committee session. "But he can't say so openly and must take it very slowly. We can't only follow theory, we have to have stable domestic politics and especially watch our relations with communist China."

The reference to China hints at an important reason why the president is taking a minimalist approach to constitutional changes. Taiwan's constitution, adopted in 1947, embodies a five-branch government inspired by the father of the Chinese republic, Sun Yat-sen. It also includes an elaborate but largely powerless provincial government, which is costly to maintain but perpetuates the fiction that the central government is prepared to rule the Chinese mainland. Any substantial changes to these arrangements might raise questions in Beijing as to whether the KMT was abandoning its claim to represent all of China and leading Taiwan towards independence.

Deep doubts also exist about direct presidential elections among those strongly committed to the unification of Taiwan and China. Observers at the central committee meeting included Sun Yat-sen's grandson, Sun Chi-ping. Asked about the KMT's decision in favour of a popularly elected president, Sun replied: "That's okay for Taiwan. But how can we have such an election on mainland China? It would be too difficult to count the votes. It's not practical."

Such worries are now a minority view in the KMT, whose policy-making groups are thoroughly dominated by the president's supporters. But politicians and scholars in opposition parties and even within the KMT say they are uneasy about what they consider inadequate checks on growing executive authority. Currently chosen by the National Assembly, the president technically can be removed by the assembly as well. But the procedure for this is cumbersome and most analysts say it would be extremely difficult to carry out.

Others in the opposition party say they aren't worried. One DPP official commented that many party members consider the direct election of the president such an important step on the road to fully democratic government that they are willing to temporarily put aside their demands for a more balanced constitution. "Direct presidential elections will be a major breakthrough for us," said DPP spokesman Chen Fang-ming. "We have to take this first step, even if it is very risky."

Many opposition politicians are counting on Lee to a stand for a second term. "It's true he's the one who's inherited the Chiang family tradition [of autocratic rule], but he's also the only one who has been cutting the roots of the KMT's power," said a senior DPP member. "We've needed a forceful leader to drive the conservatives out of government. ■

INDIA

Where's the Beef?

It's banned in Delhi, and mutton isn't available

By Hamish McDonald in New Delhi

Maneka Gandhi's house is guarded by a spiked iron fence and three armed policemen. Dogs of all colours and sizes loll in the driveway, under a car, and across the doorstep. An enormous bull mastiff comes in to sniff at visitors.

As the widow of Sanjay Gandhi, the controversial younger son of the late Prime Minister Indira Gandhi, she probably needs protection from bearers of old grudges. But the last enemy for a person with 14 or 15 dogs — she has lost count — should be the local butchers. Nonetheless, Delhi's meat trade is incensed at her, and death threats have been uttered.

Gandhi, a former environment minis-

for trouble.

Delhi's meat-eaters have had their diet restricted in two ways. The Hindu-revivalist Bharatiya Janata Party, which has governed the capital since last November, passed a law on March 29 that plugs loopholes in long-standing legislation banning the slaughter of cows, which are sacred to Hindus. Mere possession of beef can now earn a five-year jail term.

A separate action, mounted by an anti-slaughter movement founded by Gandhi, resulted in the Delhi High Court closing the city's 90-year-old Idgah abattoir on March 18. The judges accepted evidence of appalling cruelty to animals, lack of hygiene and dumping of untreated waste — and ordered the abattoir's immediate refurbishment. When it reopened some time in early May, they said, it could slaughter only 2,500 animals a day, enough for Delhi's meat consumption. Previously about 13,000 goats and buffaloes were being

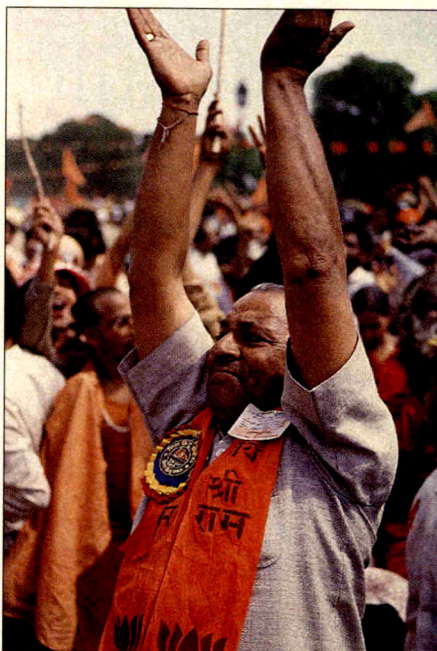
killed every day — in large part, Gandhi says, for export to the Middle East and other foreign markets. Protesting against the court ruling, Delhi's butchers have all gone on strike. As many slaughterers and butchers are Muslims, the issue has a sensitive

communal side and riots are a constant fear. The Jain sect, a branch of Hinduism opposed to killing even insects, has offered to rehabilitate meat-workers in other trades, an offer so far scorned.

Meanwhile, diehard meat-eaters have opened a bootleg trade, using illegal slaughter yards on the city fringes. In turn, this has drawn Delhi's population of vultures and kites to unusual haunts, including the flight paths of the capital's airport. After bird-strikes caused two emergency landings, extra sharpshooters have been posted around the airport.

Gandhi says she is not trying to enforce vegetarianism, only humane slaughtering and clean meat. "What motivates me is a combination of things," she says. "It is the cruelty. It is the sheer suicidal instinct of a person eating meat. You're not looking at the suicide of one person, you're looking at the suicide of a whole country."

Goats destined for slaughter were creating a dust-bowl out of India, Gandhi



No beef, please, we're BJP. Right: Gandhi's militancy angers meat-eaters.

HAMISH McDONALD



PRAMOD PUSHPAKNAN/INDIA TODAY

ter, is India's foremost vegetarian. Even her dogs live on biscuits made of grain and pulses. And for the past month, Gandhi has had most of this city of 8 million people on a compulsory vegetarian diet, following a court order that temporarily shut down Delhi's only legal abattoir.

Having weathered a spell of Hindu-vs-Muslim fanaticism over the Ayodhya mosque affair, some Indians think they now have "vegetarian fundamentalism" on their plate. The three American fast-food chains (McDonald's, Kentucky Fried Chicken and Pizza Hut) now preparing to open up in liberalised India may also be in

says. Export earnings from the meat trade were far outweighed by the land degradation it caused. Animal herds brought into Delhi had stripped the Aravali hills to the west, the city's shield against dust from the Rajasthan desert, and eaten trees as fast as urban authorities could plant them.

Gandhi also says that India's tigers are being killed off by goat-herders encroaching on game reserves and leaving out poisoned meat or sharp objects near waterholes. "It's nonsense to say they're killed by the Chinese in search of aphrodisiac bones. It really hasn't gotten that far. They were killed by the goat people. Instead of tigers killing goats, you have goats killing tigers."

The incoming fast-food restaurants will worsen this, Gandhi argues. McDonald's will need 150,000 animals a month for the non-beef hamburgers it is designing for the Indian market. "Where are they going to feed?" she said. "They're going to feed in the forests. McDonald's are not sending any money to grow trees." And Kentucky Fried Chicken was buying up India's maize, the highest-protein cereal and cheapest food for the poor, to fatten its chickens.

Vegetarian and non-vegetarian are the

two human divisions that immediately strike travellers arriving in India. Diet has a central place in Indian culture, related to notions of purity and self-control. Many high-caste Hindus regard meat as an impure food, one likely to inflame unworthy lusts and emotions. Unmarried women, widows and older people often shun meat for this reason.

However, many Hindus and Sikhs do enjoy their mutton and chicken, and an export trade partly run by Hindus brings India about US\$800 million a year. "Vegetarian fundamentalism has the potential to do enormous harm," said *The Times of India* columnist Arvind Kala. "Our country is overrun by unproductive livestock that we cannot feed and that we don't eat."

In Bengal, many Hindus quietly enjoy their beef as part of an independent regional culture. Bengali writer Soumitro Das dismisses arguments by Western philosophers like "animal liberationist" Peter Singer about which living things are inanimate and can therefore be eaten without causing suffering. "This kind of reasoning is possible only in the West which has, as yet, no idea of the boredom of vegetarianism," Das wrote in Calcutta's *The Telegraph*. ■

PAKISTAN

Bare All and Be Damned

Ex-army chief reveals nuclear secrets

Pakistan's generals wish that one man would keep his mouth shut and stop revealing the country's nuclear secrets. He is none other than former army chief, Gen. Mirza Aslam Beg. In a recent speech and in an article in the daily *News*, Beg has disclosed that the country's nuclear button is controlled by the hitherto unknown National Nuclear Command Authority (NNCA). The military and the government are also furious at Beg's revelation that Chinese M11 missiles are potentially part of Pakistan's nuclear bomb delivery system. The United States has tried to block the supply of these missiles, while Pakistan has denied receiving them.

Beg said Pakistan had acquired nuclear capability as early as 1987 and that Washington turned a blind eye to it until 1990, because it needed Islamabad's support for the Afghan war. According to him, the NNCA was established in the 1970s and is run from the army's General Headquarters in Rawalpindi by the Joint Operations Centre and that the chain of command is headed by the "chief executive." Today that is Prime Minister Benazir Bhutto. The NNCA's decision-making body is the Nuclear Command Committee, which includes the prime minister, the president, the army chief and three other people.

"The NNCA determines the state of readiness which has to be maintained at all times . . . and lays down in great detail the policy of how the various components will be placed, protected and safeguarded," wrote Beg. Outlining the delivery systems, Beg added: "We already have the F16s, Mirages and the M11s which we are now getting from China . . . Through the missile programme . . . we should have a delivery system with a very effective, accurate, guiding system provided on the missiles."

Beg also admitted to receiving a donation of Rs 140 million (US\$6.4 million) from the now-bankrupt Mehran Bank, Rs 60 million of which was used by the Interservices Intelligence (ISI) for the 1990 elections. Bhutto lost those elections and claimed they were rigged by the ISI. The rest of the money, Beg said, went for ISI operations. Beg has aspirations to be the next president of Pakistan, but his name is anathema to the current army leaders.

■ Ahmed Rashid

More Milk and Less Gas

While they don't like eating the meat of their beloved cattle, Indians find a lot of uses for cows and their products. Cattle are hitched to ploughs, wagons and threshing machines. Milk is drunk hot with sugar or stirred into thick cups of tea, drunk as cold *lassi* (a yogurt-based drink), or eaten as *paneer* (a type of cottage cheese), while dried dung is burnt as household fuel.

Now an American company may have found an unusual role for the animals: they are set to become star players in a scheme to combat global warming. As they digest their food, ruminant animals like cattle and buffaloes give off large amounts of methane gas — not, as commonly supposed, at the tail end of the process, but as they breathe. Methane is one of the greenhouse gases that trap heat in the atmosphere and contribute to global warming. About 20% of the methane in the atmosphere comes from large ruminants, the rest



On its way to help combat global warming.

from rice-paddies, petroleum gas and fires. India has about one quarter of the world's ruminants, and its 300 million cows and buffaloes give off particularly high amounts of methane.

AES Power, a United States electricity company which owns or operates 11 power stations, is drafting a scheme to reduce

methane emissions from India's cattle through a feed supplement originally designed to increase milk output. AES, together with a non-profit U.S. group called Appropriate Technology, recently approached India's National Dairy Development Board for a collaborative project covering research and development of the methane-reducing feed and extension services to market it to cattle owners. The two parties have signed a letter of understanding, but no formal agreement has been forthcoming. A figure of about US\$5 million is being talked about for a pilot scheme.

■ Hamish McDonald

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Slapping the Other Cheek

Beijing cracks down on religious groups

By Lincoln Kaye in Beijing

Grieving Christians often turn to the Old Testament Book of Job for solace. "The Lord gave and the Lord hath taken away," reads one famous passage, "blessed be the name of the Lord."

As the latest target in Beijing's bewildering game of give-and-take with Washington and the tiny local dissident community, China's Christians have found themselves turning to Job of late for its bleak consolation. Even as authorities released celebrity dissident Wang Juntao from jail and bundled him out of the country, police cracked down on Protestant pastors and lay workers with links to activist lawyers and labour leaders.

Beijing apparently hopes that setting Wang free will prompt United States President Bill Clinton to bless China with renewal in June of its most-favoured-nation (MFN) trading status. But the anti-Christian sweep suggests an increased fear on the part of security forces about an overlap between the political and religious opposition.

Wang, 35, an alleged "black hand," or mastermind, behind the 1989 pro-democracy demonstrations that ended in the Beijing massacre, was freed on medical grounds after serving just three years of his 13-year sentence. He was allowed barely 30 minutes in an airport lounge for a reunion with his family before being spirited off to the U.S. for treatment.

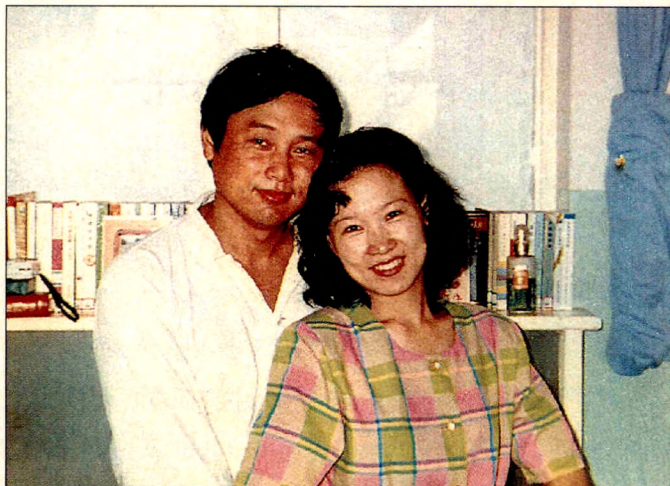
Upon arrival in New York, Wang said he hopes to return to China after treatment. He predicted that "in the near future others like me will be released." Dissident and diplomatic sources in Beijing were not so sure. "Why should the regime give up any more than it has to for MFN?" asks a local intellectual. "They'll play their chips only grudgingly, one at a time."

"As for Wang, they've got him right where they want him: in America, where they can make him a high-profile advertisement for China's benevolence while denying him any vestige of political influence back home. Why let him back in?"

Wang's fellow 1989 black hand, theoretician Chen Ziming, remains in jail. So does reformist technocrat Bao Tong, 60, the ailing secretary of ousted Premier Zhao Ziyang. Nor is there any word on the sta-

tus of China's most famous dissident, pamphleteer Wei Jingsheng, released last year in the run-up to Beijing's unsuccessful bid to host the 2000 Summer Olympics. Wei was seized anew by police in April as he attempted to re-enter the capital after an enforced out-of-town "vacation."

While Beijing-watchers pondered when — or whether — the next famous detainee might be sprung, dissident sources predicted long jail terms could soon be handed down for two lawyers, Yuan Hongbing and Zhou Guoqiang, who were among the co-founders of an independent labour rights movement launched during China's annual legislative session in March. Both



Wang and wife: 'high-profile advertisement for China's benevolence.'

men have been held since the visit of U.S. Secretary of State Warren Christopher.

Another co-founder of the labour federation, Christian scholar Xiao Biguang, 32, was grabbed as recently as mid-April on charges of identity-card irregularities. But the focus on Xiao hints at a new set of pre-occupations on the part of security forces, linking previously disparate dissident groups.

An associate of arrested lawyer Yuan, Xiao provided a ready supply of scriptural references and spiritual authority to the authors of the labour federation's charter, according to his wife, Gou Qinghui. At the same time, Xiao and Yuan were readying a legal challenge to a 1992 police assault on a 7,000-strong Shandong Protestant congregation during which nearly 50 parishioners were jailed, the pastor sentenced to 12 years, the church building bulldozed and parishioners' property confiscated.

A court precedent establishing the legal standing of a church congregation as a liti-

gant would open the floodgates to a spate of lawsuits, pitting the long-standing property claims of once-substantial churches against the speculative ambitions of land developers in China's booming economy. Such cases are already on the boil in Shanxi and Liaoning provinces, where parishioners have been beaten up by hired thugs for protesting against land-grabs, church sources say. Xiao may also have irked authorities, Gou suspects, through his role as an active member of Beijing's recalcitrant Gang Wa Shi church. This parish of the state-sanctioned "Three Self" Protestant movement has resisted government attempts to oust its pastor or infiltrate its leadership with outside functionaries.

Such feistiness from organs of the once-passive official churches appears to be touching a nerve in China's security apparatus. In January, the government posted two new orders codifying national regulation of religious activities. Of the two, significantly, only the one controlling proselytisation by foreigners has so far been used in a nationally publicised case, the deportation of an American preacher and his Asian acolytes in February.

The other order, governing activities allowed for domestically registered places of worship, has yet to be invoked against Xiao or anybody else, as far as church sources know. Another Christian activist, Liu Huanwen, was also detained for three days recently, but no charges were brought against him, Gou reports.

At least where duly registered domestic churches are concerned, the new cabinet order on religion "is very much a two-edged sword," points out a foreign Christian. "On the one hand, it bars churches from doing anything that 'harms national unity, the solidarity of ethnic groups or social stability.' Yet at the same time, it guarantees things like property rights and self-management of religious congregations. One misstep by Beijing could draw the fire of powerful religious lobbies around the world."

At least one religious lobbyist clearly has Beijing worried enough to try to control the movements of clergy even beyond China's own borders. In a seeming quid-pro-quo for Wang Juntao's release, a Chinese Foreign Ministry spokeswoman demanded that Clinton cancel his reported plan to meet with the Dalai Lama, Tibet's exiled God-king.

A report by the official Xinhua news-agency quoted the Foreign Ministry as declaring "we oppose the Dalai Lama, by any status, going in for political activities in other countries to disrupt China's integrity."

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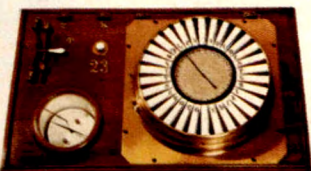
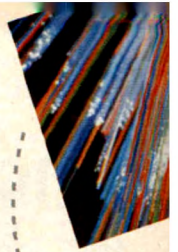
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Endangered Species

1997 looms large for China-watching magazines

By Louise do Rosario in Hong Kong

The clock is ticking down to the 1997 handover of Hong Kong to China, and few hear the sound louder than Fong So. He is the managing editor of *The Nineties*, one of a small group of Hong Kong-based China-watching magazines highly critical of Beijing. Fong and his colleagues fear — with some reason — that their magazine's days are numbered.

These Chinese-language periodicals serve up a mixture of fact, gossip and detailed analysis of Chinese politics, providing a glimpse through the veil of secrecy still shrouding the inner workings of the world's most populous state. Because the magazines circulate among China-watchers worldwide, Beijing views them as a significant threat. In a 1990 internal document that may point to things to come, Chinese authorities said these publications should be "isolated and attacked."

"We would be lying if we say we are not afraid about the future," says Fong, who wears thick glasses and has white hair, though he is only in his forties. The magazines routinely print the type of sensitive information that earned Chinese reporter Xi Yang a 12-year prison term for "stealing state secrets" — in Xi's case central bank plans for interest rates and gold sales.

Nearly a dozen China-watching magazines are published out of Hong Kong, but the most widely read are *The Nineties*, *Open*, *Contemporary* and *Cheng Ming*. Nearly all operate on shoestring budgets, with small staffs and even smaller offices. Advertising revenue is negligible, forcing them to rely on subscriptions and donations from sympathisers. Their circulation is also small: both *Open* and *The Nineties* claim monthly sales of about 20,000 copies.

But their influence goes beyond their size. Often the first to break bad news about China, they are closely read by academics, diplomats and journalists. Intellectuals on the mainland are another group of loyal readers. And for decades these magazines have been a forum for dissident voices on China. Their role has diminished, however, with improved access to information in China. The number of foreign correspondents in Beijing swelled in the early 1980s, and Deng Xiaoping's open-door economic policy has allowed busi-



Hong Kong's China-watchers.

nessmen to see China for themselves. That has highlighted a handicap shared by most of the magazines: their editors rarely or never visit China for security reasons, and are thus dependent on informants and travellers.

In 1997, however, China will come to them. "Naturally, it has cast a dark shadow over our work," admits Johnny Lau, deputy editor of *Contemporary*. Despite Beijing's pledge of "one country, two systems," all indications are that press freedom will suffer when the British colonial government packs up and leaves Hong Kong. Beijing could "force closures or make arrests," warns Li Yi, *The Nineties'* editor-in-chief and Fong's boss.

Seeing the writing on the wall, the journals have been reviewing their options. At least one is leaving. *China News Analysis*, an English-language fortnightly that has operated from Hong Kong for four decades, is moving to Taiwan. Another solution is to quit. *Pai Shing*, a bi-weekly political magazine, was sold to a Hong Kong publisher that specialises in entertainment. It has since become a general-interest periodical less critical of Beijing. *The Nineties*, too, got its directors together in December to draw up contingency plans. "I'm not willing to be a martyr, sacrificing myself for press freedom," confesses Li. "If the situation deteriorates,

I may retire in 1997."

Others vow to stay on and keep publishing. "I strongly believe we can survive beyond 1997, unless there is total collapse in Hong Kong and China," says Jin Zhong, editor of *Open*. Jin, who was an engineer in Yunnan before falling victim to political purges during the Cultural Revolution, is driven by a strong sense of mission. "We are witnesses to the crimes committed by the communists. We are answerable to history," he says. Another who is determined to stay is *Contemporary's* Lau, who was a high-flying foreign correspondent for a Beijing-funded Hong Kong daily before falling out with the newspaper over its coverage of the 1989 Beijing massacre. "We must let the world know that non-government progressive forces are gathering momentum and helping to shape a new China," he says.

Each of the magazines has its own character. *Contemporary*, for example, has repeatedly leaked information about China's policy on Hong Kong. In 1990, it revealed that the official Xinhua newsagency — whose Hong Kong office is China's de facto embassy in the colony — had classified the Hong Kong media into four categories, from friendly to hostile.

Open's approach is more scholarly. It deals with historical issues, digging up forgotten chapters of the communist regime's brutal past. In a 1992 report that was seized upon by the international press, it revealed that the flesh of "class enemies" such as intellectuals and children of former landlords was eaten by fanatics during the Cultural Revolution.

Along with the scoops, these magazines also serve up their share of blunders, and in some cases, apparent fabrications. *Cheng Ming* reported last year that senior leader Deng was dying of cancer — he subsequently appeared on television looking feeble but very much alive.

In the run-up to 1997, the greatest threat to the survival of the China-watching magazines might be not Beijing, but economics. *Pai Shing* was sold because its founder ran out of money. "Ours is a sunset industry," laments *The Nineties'* Li Yi. "In this age of electronic media, magazines are no match for television." Another concern is political apathy among readers. "People are sick and tired of bad news," says Fong. "They don't want to be reminded of their fears constantly." ■



Jin: optimistic about survival.

HONG KONG

Tightrope Walker

Xu Ximin doubles as
China's friend and critic

Publishing a China-watching magazine is not always a route to penury and political risk. Just ask Xu Ximin, the 80-year-old founder of *The Mirror*, a Hong Kong-based monthly. His magazine boasts a steady circulation in China, attracts advertising from mainland companies and has helped bolster his position as adviser to the Chinese Government.

What allows Xu to get along with China? Most observers cite his pro-Beijing views, often reflected in the pages of *The Mirror*. But Xu is not simply an apologist for the communist regime, as he showed when he raised his voice in protest at the jailing of Chinese reporter Xi Yang. *The Mirror* also carries articles critical of China, especially of Marxist ideologues opposed to reform. "We are different from other political magazines; they oppose everything China does," Xu says. "We support the communist party but we want things to improve on the mainland."

Xu's unusual blend of conservatism and liberalism may be rooted in his tumultuous past. Born to a well-off Chinese immigrant family in Rangoon, Xu helped rally local resistance to invading Japanese troops during World War II, then had to hide for years in Burma's jungles. He revived the family firm after the war, but Burma's socialist regime seized the business,

prompting him to leave for Beijing in 1964. There he found himself dragged into the political excesses of the 1966-76 Cultural Revolution and learned how to survive among radical communists. He left China for Hong Kong in 1976.

One of Xu's critics is Jin Zhong, editor of the rival China-watching magazine *Open*. Xu belongs to the generation of overseas Chinese with "blind loyalty to the motherland," Jin asserts. "They are discriminated against abroad and long for a strong China to back them up." Jin dismisses Beijing's tolerance of Xu's critical articles as mere "window dressing."

Xu's patriotism — as China would call



Xu: a case of blind loyalty?



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it — is best demonstrated in his opposition to Hong Kong Governor Chris Patten's attempts to introduce more democracy to the colony. He dismisses the moves as "tricks played by Britain to extend its influence locally beyond 1997," when Hong Kong reverts to Chinese rule. His position on the issue is so close to Beijing's that *Mirror* editorials about Hong Kong often read like official Chinese statements.

Beijing has rewarded Xu with membership in two Chinese official bodies, the Chinese People's Political Consultative Conference and the Preliminary Working Committee, which advises China on post-1997 matters in Hong Kong.

Xu's editorial stance has helped *The Mirror* sell 6,000-8,000 copies in China, where other China-watching publications are banned. *The Mirror* sells another 10,000-20,000 copies in Hong Kong and elsewhere in Southeast Asia.

Xu, a wealthy businessman, is also the sole Hong Kong agent for some popular Chinese products. *The Mirror* appears to benefit from his business ties: each edition is filled with advertisements placed by mainland companies. But Xu says his China business has not compromised *The Mirror's* principles. "We are an independent, privately owned publication. We get the ads through our own efforts." Some have their doubts. "There's an obvious conflict of interests," says Fong So, managing editor of *The Nineties* monthly.

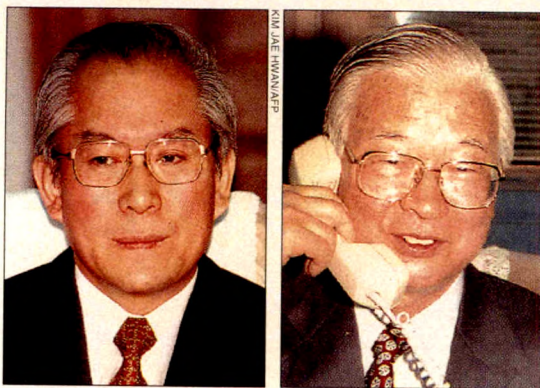
Still, Xu's *Mirror* does not just cheerlead for China. It frequently criticises communist hardliners, hits hard against official corruption and questions the privileges enjoyed by relatives of top Chinese leaders. Another target is unethical practices by Chinese enterprises in Hong Kong.

Most recently, Xu appealed unsuccessfully to Chinese Premier Li Peng on behalf of Xi, the Chinese reporter sentenced to 12 years in prison over an economic report he wrote for the Hong Kong daily *Ming Pao*. But Xu's critics question his motives, asking why he has remained silent about the case of another jailed Chinese journalist, Gao Yu, who wrote for *The Mirror* as well as other Hong Kong publications. Defending Xi "helps him to look good in Hong Kong," says a Hong Kong journalist who has known Xu for years. But Gao's case could implicate *The Mirror* and damage Xu's Chinese ties, he adds. Sources say Beijing is particularly upset with two articles Gao wrote for *The Mirror*.

Xu makes clear that while he criticises China on certain issues, he supports the regime. "I love my motherland, no matter how backward it is," he says, sitting in his office alongside a photo of him with Li Peng. "I support the communists because they are the ruling party in China, and I can't see any other force that could replace them."

■ Louise do Rosario

SOUTH KOREA



Old and new: Lee Hoi Chang (left), Lee Yung Duk.

Split Decision

Discord on North prompts premier's sacking

By Shim Jae Hoon in Seoul

It was a short-lived marriage, but who divorced whom? As with any parting of ways, the end of a political alliance can be a messy affair. South Korean President Kim Young Sam says he kicked out his prime minister, Lee Hoi Chang. Lee insists he walked out on Kim. While both men are obviously trying to save face, their breakup has highlighted growing disagreement within the Kim government over how to deal with North Korea and its suspected nuclear weapons programme.

Lee ended his tenure on April 22, just four months after he became prime minister. Some observers saw his abrupt departure as proof of Kim's inability to coordinate important policy shifts even as Pyongyang is showing signs of flexibility on inspection of its nuclear facilities. Kim's frequent cabinet changes — Lee was the second prime minister to go in 14 months, and more changes are said to be in the offing — have also raised fresh doubts about his leadership.

The latest reshuffle followed a turf war between the president and his prime minister. Kim aides say Lee tried to infringe on the president's constitutional prerogatives by demanding a commanding voice in the decision-making process. The president was reportedly angry with Lee for challenging his authority at a time when public disenchantment with the government appeared to be growing. Lee, for his part, implies the president overstepped his constitutional role as a head of government who should coordinate cabinet policy.

By dismissing Lee, the president has

made it clear he intends to keep control of the nuclear issue. But his appointment of the deputy prime minister and unification affairs minister, Lee Yung Duk, as the new prime minister could foreshadow a hardening of Seoul's position on Pyongyang. Unlike his predecessor, Lee Yung Duk is an ideologue. A 68-year-old former university president, he is a refugee who fled the North. He infuriates Pyongyang with his objections to open-ended talks without clear results and his penchant for discussing the state of human rights in the North.

The latest cabinet reshuffle in Seoul has occurred against the backdrop of the United States introducing Patriot anti-missile batteries to South Korea. Also in the background is U.S. Secretary of Defence William Perry's warning that the North could produce four or five nuclear bombs. With a North Korean negotiator threatening that Seoul would be turned into a "sea of fire" in the event of war, the change in prime ministers has aroused fresh worries about the Kim government's overall stance on negotiations with Pyongyang.

Lee, a jurist by training, had hinted at the trouble to come when he instructed ministers in charge of security issues not to announce policy initiatives without first consulting him. The order came shortly after Foreign Minister Han Sung Joo decided to provide asylum to North Korean lumberjacks who escaped from their work camps in Siberia. Two weeks earlier, the prime minister had been angered by Seoul's reversal of its decision mandating an exchange of high-level envoys with Pyongyang as a precondition for the North resuming talks with the U.S. on the nuclear issue. That concession paved the way for the talks to resume in New York.

President Kim also infuriated Lee by excluding him from the inner council dealing with North Korean issues. The council is composed of Foreign Minister Han, Defence Minister Rhee Byoung Tae, Home Minister Choi Hyung Woo, Agency for National Security Planning head Kim Duk, and the President's National Security Adviser, Chung Jong Uk. The president is represented on the council by his chief secretary, Park Kwan Yong.

By dismissing Lee, whose uncompromising stand against corruption in government has made him a popular hero, Kim has earned plenty of criticism. The opposition Democratic Party charged him with being a "neo-authoritarian" figure. At the National Assembly opening on April 25, the party's president, Lee Ki Taek, vowed to refuse to endorse the new premier, labelling him a "rightwing" figure unfit for talks with the North.



TURN TO...

Identity Crisis

U.S.-Hanoi talks stall on foreign nationality issue

By Irene Wu in Washington

Once a Vietnamese, always a Vietnamese. Unless, that is, you personally renounce your citizenship in writing to the president and he approves it — something no one has ever tried. That apparently innocuous law has stalled negotiations between Washington and Hanoi over a usually routine consular-affairs agreement needed to set up a liaison office, an essential step towards establishing full diplomatic relations.

In the latest round of negotiations, Vietnam balked at signing a consular agreement that would require it to contact American authorities within 72 hours should an American be detained in Vietnam. The hitch is that the Vietnamese Government does not recognise dual nationals. The government considers all those born in Vietnam and those born to Vietnamese parents, regardless of birthplace, to be Vietnamese.

Among Vietnamese-Americans, the dispute is yet another reminder of Hanoi's mixed feelings toward Vietnamese overseas. "On the one hand, they tell us to come home and help the country, and on the other hand they say that since you are Vietnamese, somehow and somewhat you are under our control," says Nguyen Khanh, a reporter for *Ngôi Viet*, a Vietnamese-language newspaper published in southern California.

Beyond simply getting approval for liaison offices with the United States, how Vietnam handles the dual-nationality issue may affect its future development. In the short run, the absence of a consular agreement probably won't have much impact on the current level of commercial dealings and investment by overseas Vietnamese. "Realistically, the issue hasn't put a crimp on the traffic," says one Vietnamese-American business analyst. "Those who are entrepreneurs are risk-takers. Those who invest would invest anyway."

But in the long run, the overseas community may be reluctant to risk much without the shield of their acquired citizenships. The Vietnamese Government recently offered tax breaks to overseas Vietnamese to encourage investment, but many observers are sceptical that overseas Vietnamese will take advantage of them.

U.S. officials say that consular access does not mean the U.S. takes sides in legal disputes, but only ensures that detained nationals are given the same treatment as other prisoners. The political reality, how-



Refugees now, but once and forever Vietnamese.

ever, is that foreign citizenship is an added protection against the vagaries of Vietnam's judicial system, something many Vietnamese-Americans feel insecure about.

From the point of view of some U.S. legislators, the issue could reach deeply into American constituency politics. "We have 21,000 Vietnamese-Americans in Virginia and we want them to be treated equally and fairly should they travel to Vietnam," says Peter Cleveland, an aide to Sen. Charles Robb, who raised the nationality issue publicly with U.S. Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord.

The U.S. demands conform to international standards set by the 1963 Vienna Convention on Consular Relations, which requires that a consular office be informed "without delay" of a national's detention. Both the U.S. and Vietnam are signatories, but whether Vietnam finds a way to work around the dual-nationality issue has less to do with the niceties of international law than Hanoi's perception of the overseas Vietnamese community.

The issue of recognising dual nationality is technically a legal one, but in the minds of many overseas Vietnamese it is a symbol of the Vietnamese Government's basic distrust of the overseas community. And incidents such as the 1992 hijacking during which Ly Tong, a Vietnamese-American, forced a commandeered Vietnam Airlines plane to circle above Ho Chi Minh City and drop anti-government leaflets, have fuelled suspicion in Hanoi. "They don't want to give up control because they feel threatened by Vietnamese-Americans who continue in one way or another to

wage an old war," says Judy Shapiro of the National Endowment for Democracy, a not-for-profit, non-governmental agency based in Washington.

Although an anti-Hanoi feeling persists among Vietnamese in America, the two decades that have passed since the end of the Vietnam War have mellowed its vehemence and brought a new generation of overseas Vietnamese to community leadership. "The old guard, with the healing of time and new developments in the world, also have begun to change their conception of Vietnam," says Tai Do, a Vietnamese professional working in southern California. "It's important to recognise the reality that there are 2 million Vietnamese now living in 40 different countries."

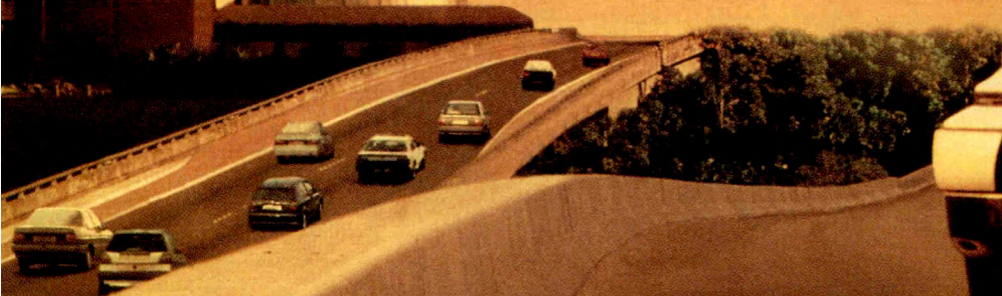
Many Vietnamese-Americans play down the significance of radical anti-Hanoi element in the overseas community and say that if overseas Vietnamese get involved in local Vietnamese politics in ways foreigners ordinarily would not, they should not expect the privileges afforded foreign citizens. But others point out that the difficulty with that view lies in conflicting definitions of what should be considered "political." "If I went home and helped build a school," Khanh says, "if the local government was happy with my work they would leave me alone. If they were not, they might label me as CIA — who knows."

Vietnam is not the first nation to face the problem of dealing with its citizens returning under another country's protection. China gets around the issue through a bilateral agreement with the U.S. that provides for notification and access by consular officials to detained U.S. passport holders, thus skirting the nationality issue.

Whether Vietnam is willing to take a similar route is unclear. It does not have such arrangements with other countries that have substantial overseas Vietnamese communities. As Nguyen Thi Hong, press attache for the Vietnamese mission to the United Nations, states: "We do not discriminate among Vietnamese-Americans or Vietnamese-French or Vietnamese-Australians. We consider them Vietnamese — that's why we welcome them back to contribute to building our country." Acceding to U.S. demands would set a legal precedent that might affect Hanoi's relations with other countries, an administration official points out. ■

TURN TO

GOLD



BENSON & HEDGES

THE 5TH COLUMN



Chhang Song served as information minister in the U.S.-backed Lon Nol government and migrated to America when Cambodia fell to Pol Pot forces in 1975. Chairman of the Washington-based Save Cambodia, Inc., he was in Cambodia to observe last year's elections.

Cambodia's Year One

By Chhang Song

This month marks the first anniversary of the United Nations-backed elections in Cambodia and the government thus established. In spite of early scepticism, the US\$2.3 billion the UN spent to send 22,000 peacekeepers on an unprecedented, 18-month mission to Cambodia is beginning to look like a good investment. Over the past year the new government has made much progress. But the country requires dramatic changes from within before significant development is possible.

The most obvious problem area, of course, is security. Quite simply, the continued existence of the Khmer Rouge militates against any long-term investment in the country. The government, to its great credit, has taken on this scourge. Earlier this year it captured both the Khmer Rouge stronghold in Anlung Veng and its "capital" in Pailin. But a measure of the difficulty involved is that the Khmer Rouge now appears to have re-asserted control over both these areas, and in any case continues to operate in bands in almost a quarter of the Cambodian countryside.

Indeed, the government's inability to extend its mandate over the Khmer Rouge is echoed in other areas. Rampant urban banditry, for example, organised by demobilised soldiers and discontented, rag-tag bands, poses a daily threat to the Cambodian populace. In the countryside, some 8-10 million land mines litter the landscape. One mine per person! The first responsibility of any government is to provide for the security of its people, and it is difficult to imagine Cambodia's return to normalcy so long as the Khmer Rouge continues to defy its mandate.

A related area of concern has to do with political power. However sadly, Cambodia must look hard ahead now to the post-Sihanouk era when the charismatic monarch will no longer be around to serve as the ultimate symbol of national unity. What Cambodia needs most here is to introduce, with help from the king, a system of checks and balances to ensure political stability.

Today many of the 120 deputies, or "people's representatives," of the National Assembly have simply accumulated too much personal power. In particular, the practice of allowing people to keep their

seats in the assembly while serving in other branches of the government — from the cabinet and judiciary to the army — must be ended. The existing arrangement keeps power in the hands of a few, saps government accountability and makes it all but impossible for the judiciary to enforce independent decisions.

If this is to change, political structures must be redefined to ensure that the three branches of government interact independently. As in the days of the Sangkum, in the 1960s, when His Majesty King Sihanouk ran the government, local administrations must allow power to be vested horizontally in provincial and district councils. In this way minority rights would be respected and the majority will would be enforced.

What Cambodia needs is to introduce, with help from the king, a system of political checks and balances

Lastly, the economy. Few recall that Cambodia was agriculturally prosperous and self-sufficient when it was dragged into the Vietnam War in 1970. Today, although the country's potential remains great, the economy for all its vibrancy is plagued by chaos. A per capita GDP of US\$130 reflects the abysmal poverty of the rural masses.

In the public sector, the worst is now behind us. GDP has grown by a healthy 7% over last year. The riel has been stabilised and is now going strong, down to Riel 2,400 to the U.S. dollar from Riel 4,800. Inflation has been checked and currency-printing presses have stopped rolling. All

these factors have helped persuade international financial institutions to begin releasing foreign aid to allow Cambodia to invest in emergency areas such as education, public health and economic infrastructure, especially transportation.

At the family level, too, there have been many successful private initiatives. But Cambodia still lacks an economic structure that would encourage more such initiatives, and privatisation has been stalled by lack of capital and training as well as by nationalistic fears of neighbours to the East and West.

Certainly the potential exists. Rubber, petroleum, timber, gemstones, silk, labour, tourism and a wide variety of agricultural products are items of interest to investors. Above all, Cambodia is under-populated. It has a lot of space for resorts, hotels, plants, banks, communication centres, and amusement and industrial parks. The Mekong falls can be harnessed to provide electricity not simply to all of Cambodia but to other Southeast Asian countries. The recent lifting of the U.S. embargo, moreover, on neighbouring Vietnam makes investment in Cambodia all the more viable. And Cambodia's strategic location offers the possibility of the country becoming a gateway to Asia and the South Pacific.

None of this will be easy. Unlike the past, however, the new lease on life given by last year's elections makes the problems bearable if not entirely solvable. The people have now had a taste of democracy. They are now less afraid to discuss, to criticise, to publish and to organise. This is a dramatic change from just a few short years ago and provides hope for the future. Whether these hopes will be realised now depends primarily on whether Cambodia's government can meet the aforementioned challenges to tame the Khmer Rouge, institute a clean and effective political system and lay the moral and legal framework that will make it attractive for businessmen to invest in the country. Each of these represents a difficult challenge. But they are nothing compared to the challenge that has already been met.

Happy Anniversary. ■

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TRAVELLERS' TALES

FLOWER POWER: World leaders are using a little known medicinal plant to keep up their strength, according to S. M. I. Enterprise of Johor, Malaysia. The firm is sending letters around the region, boasting about people who have bought this miracle vegetable, called Eurycoma Longifolia Jack. They claim it cures syphilitic sores and constipation, and increases both the appetite and the male sex drive.

"Our Prime Minister was also using this MEDICINAL PLANT," writes Nasil of S. M. I. Enterprises. "And when he went to U.S.A. to visit the U.S.A. President, he gave this MEDICINAL PLANT as a present. And after that the U.S.A. President said, its a wonderful gift he received because he felt very strong and healthy after he used."

One of the recipients, Philippe Fauchet of Seoul, said: "I guess Hillary will confirm this very soon." Seems to me that Clinton needs something that lowers the appetite and the male sex drive.

Talking of harassed leaders, reader Margaret Amante of the University of the Philippines read this in the *Asahi Evening News* of April 14: "Foreign Minister Tsutomu



Hata is regarded as a virtual shoe-in to succeed Morihiro Hosokawa." Shoe-in? Did he have to be kicked into place?

I'm against the notion that good leaders have to be perfect men. Consider this editorial from the *Times* of London in 1967: "High politics are unsuitable for ordinary

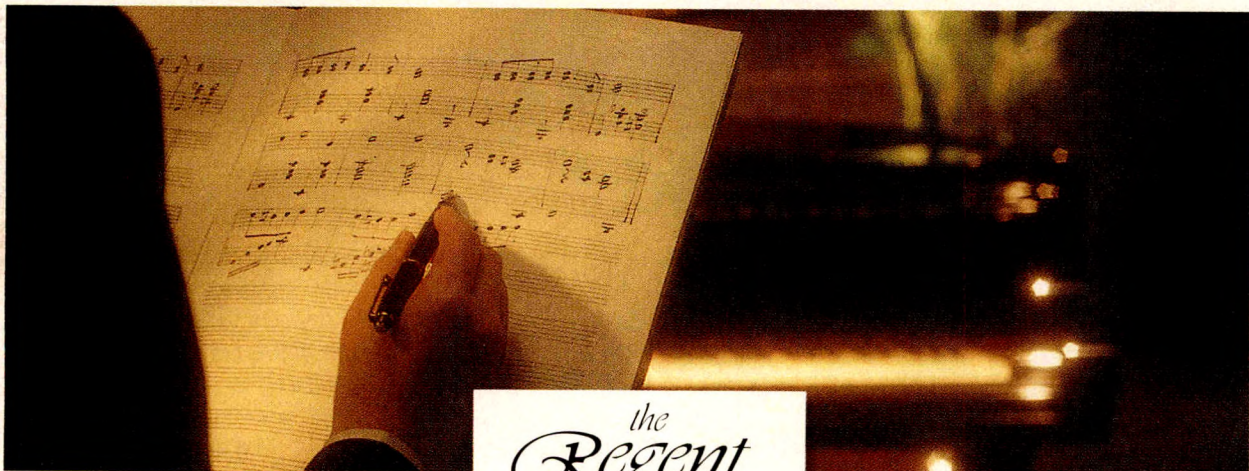
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men. Great Prime Ministers Winston Churchill and William Pitt were sociable drinkers, Lloyd George and Palmerston could not be trusted with women, Chatham, perhaps greatest of all, was actually mad."

BACKWATER: David Brazil of Jalan Daliah, Singapore, was curious about this sign, erected in Marine Parade by the Public Works Department. "I hung around for a while, but failed to spot people walking in reverse," he said. Disobedience? In Singapore? Shocking.



BACKHANDED: At a banquet to honour Taiwanese officials in Ottawa on April 12, the master of ceremonies said: "There is



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always a woman on the back of every successful man."

This may or may not be true, but in these days of gender sensitivity, I don't think it is safe to say.

TAKING THE PIZZ: Shanghai has a new pizza restaurant, called Mister Pizza Place Restaurant. The brochure handed out to passers-by explains what this new taste-sensation is.

"Mainly made from cheese, together with colourful ancillary material," it says.

I can just imagine a typical order: "Gimme a pepperoni, hold the anchovies, but with extra colourful ancillary material, please."

Seriously, though, it's delicious and reasonably priced — although I'm not sure about the slogan: "We'll like to come and try our authentic Pizz."

EIRE-ATUM: The Metropolitan College of Malaysia published a large ad (right) trumpeting the fact that it is twinned with Queen's University in Northern Ireland. The cutting from the *New Straits Times* was sent to me by reader Annie Lawrence. I hate to be pedantic (actually, that's a lie), but isn't that a map of Australia?

FIFTEEN-LOVE: Myrick Hatch of Delta Financial Partners, Taipei, was reading the weekly listings for Star TV's Chinese Channel (right).

Myrick commented: "Clearly, Asia's audiences are no longer satisfied with the classic lover's triangle."

LOVESICK: I was interested to hear from Hyam Boland of the ASM Group that Dynasty, a Taiwanese company, has adopted the slogan: "Give you and your lovers a best insurance."

Er. I think that's supposed to be "loved ones," chaps. But then again, you never know. Maybe its something to do with Aids?



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COCKLES AND MUSCLES: A drug that claims to improve men's contribution to conjugal matters was being hotly touted at the Guangzhou trade fair, I hear from China trader Steve Temkin.

The magic potion made by the Long-E-Gong Tonic Liquor Factory of Heilongjiang province has been tested on male poultry, according to the brochure: "Male chicken in birth five days were injected by this drug, the weight of cockscombs in treating group increased 98% than that in contrast

group over ten days."

I hate to be a wet blanket, chaps, but I think the cockscomb is actually the frilly bit on the chicken's head.

MR CLEAN: It occurs to me that Morihiro Hosokawa, who recently resigned as Japanese prime minister, may wish to muse on the words of Fred Daley, an Australian politician. "Politics is a funny business. One day you're a rooster. The next, you're a feather duster," he said in 1978. ■

Dictation in French. Letter in Spanish.

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FRANK
CHING



EYE ON ASIA

Asians will be interested to see if Western human-rights proponents will press the case for a Chinese teenager with the same enthusiasm

Fay Case: Collision of Values

Public reaction in U.S. suggests sympathy for 'Asian' concepts

Back when I was a student at St. Joseph's College in Hong Kong, run by the Christian Brothers, the principal — an Irish missionary — used to stand at the school's entrance, cane in hand, to meet latecomers. In class, teachers meted out similar punishment. Such caning, of course, is mild when compared with the flogging sentences handed down by Singapore courts. But it does suggest that corporal punishment, of both students and criminals, is by no means unusual in many parts of the world, Asia included.

The case of Michael Fay, the 18-year-old American boy sentenced to be caned for vandalism in Singapore, would ordinarily pass unnoticed. Caning as a form of punishment is legal in many parts of the world, and in Singapore alone the punishment is meted out to over 1,000 people a year. Fay became a *cause célèbre* only because he is an American, not an Asian, and the American media and the United States Government, including President Bill Clinton, have taken up his cause.

The case presents an interesting example of the collision of Asian and Western concepts on a host of issues from human rights, the role of the individual in society, to rights and responsibilities. Even more interesting has been the reaction of the American public, which suggests that many Americans may well be sympathetic to what have been touted as traditional "Asian" values.

Whereas Western human-rights concepts centre on the individual, in Asia the individual has traditionally been subordinate to the collective. In an interview in the current issue of *Foreign Affairs*, Senior Minister Lee Kuan Yew of Singapore puts it this way: "The fundamental difference between Western concepts of society and government and East Asian concepts is that Eastern societies believe that the individual exists in the context of his family. He is not pristine and separate. The family is part of the extended family, and then friends and the wider society."

Much of the American media has presented the Fay case as a human-rights issue, calling caning a form of state-sponsored torture. The emotive media campaign has been led by *The New York Times*, which has exhorted Americans to raise their voice in protest and "flood the Singapore Embassy with phone calls." The embassy reports, however, that most of those who call are voicing support for the punishment. In Fay's hometown of Dayton, Ohio, those polled supported caning two to one. A *Newsweek* poll found 52% disapproved of the caning, while 38% were in favour.

This unexpected support for punishment pronounced "extreme" by Clinton is less a reflection of American approval for Singapore than dissatisfac-

tion with their own society. The public is fed up with the crime and violence that characterise life in U.S. cities. In California, for example, the state senate has voted to repeal the "bill of rights" for prisoners that gives inmates the right, among other things, to receive, produce and sell pornography. The state is also considering a bill to make parents liable if a student under the age of 18 takes a gun to school. At the federal level, Congress is extending the death penalty to apply to additional offences, such as murders committed during carjackings.

During the Asian regional conference on human rights held in Bangkok last year, the governments of Asia endorsed a statement that stressed the interdependence and indivisibility of economic, social and cultural rights and civil and political rights, suggesting that a government's first obligation is to look after the quality of life of the people as a whole rather than to guarantee the civil and political rights of each individual. The Michael Fay case suggests that a significant proportion — quite possibly a majority — of Americans feel the same way.

At the time of the Bangkok conference, non-governmental organisations took issue with the official declaration. Indeed, human-rights activists suggested that the non-governmental organisations were more representative of the people than their governments. But it now appears that the liberal stance of the U.S. Government and media on the caning issue — and possibly on other human-rights issues — may well be out of sync with public sentiment.

The American media's campaign to pressure Singapore to spare Fay from the "mediaeval torture" of caning would be more persuasive were its goal to abolish caning rather than to set it aside when the criminal happens to be an American. It would also be taken more seriously if its target was not just Singapore but all countries where caning — or even worse punishments, such as amputation or death — is legal.

A *Times* columnist, my friend and former colleague William Safire, surprisingly suggests that the death penalty in the U.S. is somehow less reprehensible than caning because death by lethal injection is painless. But setting pain as the sole criterion would justify castration of rapists, psycho-surgery (removal of part of the brain) or more old-fashioned punishments such as amputation of hands and feet as long as anaesthesia is first administered. Caning may be questionable, but there are other forms of punishment that are far worse.

Now that a Hong Kong youth, 17-year-old Shiu Chi-ho, has been sentenced to 12 strokes of the cane for vandalism (against the six strokes for Michael Fay), Asians will no doubt be interested to see if Western human-rights proponents will press the case on behalf of a Chinese teenager with the same ardour and enthusiasm they have shown for an American one. ■



Shiu and mother: caning controversy.

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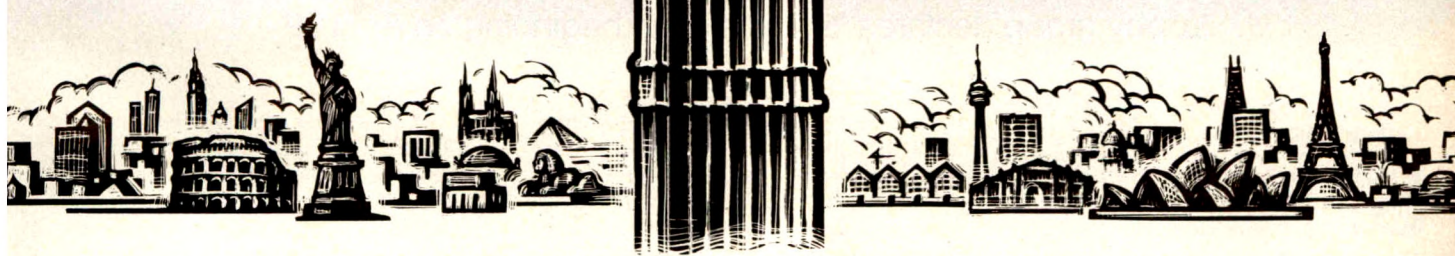
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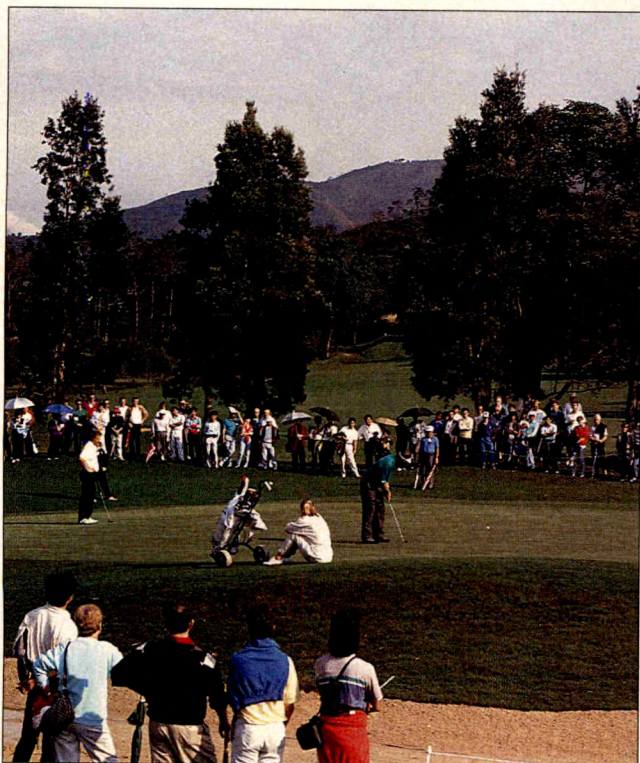
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At odds: golfers in Hong Kong and a species of dragonfly (*Megalogomphus sumneri*) found in Shalotung, where a golf course is planned.

CONSERVATION

Making Golf Greener

Lobby group declares 'No Golf Year' beginning on April 29

By Martin Williams

Shalotung, a place of ageing villages and abandoned paddyfields set within one of Hong Kong's country parks, was long a tranquil area, known to few people other than hikers and naturalists. Now, it has become embroiled in controversy as conservationists battle developers. At issue are plans for luxury housing — and a golf course.

The territory's green groups claim that building the golf course will damage the environment and threaten wildlife, including rare plants and insects. Moreover, they say, hiking trails will be diverted, scenery spoiled, while pesticides and fungicides applied to the course could pollute drinking water supplies. Students have protested, and letters have appeared in the territory's newspapers bemoaning the threat to the natural beauty of the countryside.

But hold on a minute. Isn't this a golf course that is being planned? Isn't golf — an outdoor game of lengthy walks along green swards that are invariably bounded

by trees — by definition a green, environment-friendly sport? The answer, it appears, is far from a resounding yes.

Worldwide, golf is increasingly blamed for damaging the environment, with some countries placing strict controls on new developments, while golf associations and courses respond by promoting benefits such as the sanctuaries courses may afford threatened wildlife.

Some of the finest golf course sanctuaries are found in the home of golf, Britain. The renowned Gleneagles courses, for example, are on land that includes a peat bog designated as a "site of special scientific interest." The area is home to ducks, owls, grouse and red squirrels. Yet, partly because of recent instances of environmentally insensitive course construction, pressure from some local authorities and groups such as the Ramblers Association is making it harder for new course developments in Britain to obtain permission.

Austria, Switzerland, Germany and Belgium are stricter still. Planning permission in Germany, for example, can take up to

seven years and is unlikely unless the authorities are satisfied the course is not in a sensitive location and will not change a valued landscape.

The United States, too, has seen an upswing in concern over just how green golf courses are. "No issue will have a greater effect on the way golf courses are built and maintained than people's concern about the environment," according to James Snow, national director of the Green Section of the U.S. Golf Course Association.

And now the trend towards greener golf courses is beginning to reach East Asia. On April 22, an organisation called the Global Anti-Golf Movement issued a statement in Kuala Lumpur declaring April 29 the start of "No Golf Year" and threatening to picket golf courses. The region's most golf-crazy country, Japan, has lately seen widespread opposition to the sport from environmentalists and citizens' groups. Japan's Network Against Resort and Golf Course Development, established in 1988, has helped stop at least 400 golf-course developments.

Prompted by this opposition, the Japanese Government has introduced stricter rules for course developments. Developers have sometimes agreed to make courses more environment friendly. At other times, they have opted to build courses overseas, where costs are lower and opposition invariably weaker or non-existent.

At a conference on golf and resort development in the Asia-Pacific region held last year in Penang, delegates from eight countries told of the harm to wildlife, scenery and local communities that had been caused by existing courses, or were predicted as a result of planned ones. Often, they pointed to Japanese tourism policy and Japanese companies as culprits.

The delegates learned that Hawaii was afflicted by the spread of golf courses that were typically built in tandem with resorts or luxury housing. Increasingly, the delegates heard, a similar situation was arising in Thailand, Malaysia and the Philippines. Government officials were entwined often with developments: half of Indonesia's courses were owned by President Suharto and other members of his family. Even Laos, with only one nine-hole course and few golfers, had been targeted for an up-scale course.

Not represented at the conference were Vietnam and China, which have also climbed aboard the golf-course resort bandwagon. With some recently built courses in southern China advertising for members in Hong Kong, they are clearly not aimed at the masses. As is typical in Southeast Asia, golf is a sport for wealthy expatriates, tourists and *nouveau riche* locals. Even in the region's more affluent territories, golf course debentures are beyond the reach of average citizens: full membership of the Royal Hong Kong Golf Club, for instance, now costs almost HK\$6 million (US\$769,000).

Such fees can make golf courses very profitable ventures. The Global Anti-Golf Movement — a coalition that includes Japan's network — suggests the sale of membership fees for a new course in Japan can reap a profit of over ¥10 billion (US\$100 million). "Thus," says the global network, "the game being played most earnestly here is the money game."

Though various arguments have been put forward for Hong Kong's Shalotung course, it

seems that here, too, profit is the overriding concern. The project's backer, Shalotung Development Co., prefers to stay out of the limelight while its environmental consultant, Axis Environmental, takes some of the flak from project opponents.

In July 1992, Axis' executive director, Brian Ashcroft, said there were basically two approaches to golf-course construction: the Japanese style of "destroy and rebuild" and, at the other extreme, English design methods for including as much of the natural environment as possible. The latter approach would be followed at Shalotung, he said, with the help of specialist designers from Britain and the U.S.

But only weeks later, Axis was no longer working with these specialists. An environmental-impact assessment produced by the company last July had no details of course design. It included plans for a "conservation area" in a place that is not needed for the course and unremarkable for wildlife. Following a court action last year, the Shalotung course, if built, will be restricted to land that is excluded from the country park. The government's final decision is expected soon.

"We're not anti-golf," says Lisa Hopkinson, spokeswoman of one of the scheme's leading opponents, Friends of the Earth. "We object to building courses in country parks or sites with high conservation value, but we wouldn't object to siting them in urban fringe, degraded areas."

One such site, at Tuen Mun in the northwest New Territories, was last year slated for a nine-hole course. But plans were abandoned when the Royal Hong Kong Jockey Club, which was to fund the course, backed out in favour of building two 18-hole courses on Kau Sai Chau, an island in the east of Hong Kong.

Initial ideas for Kau Sai Chau came from the Golf Association of Hong Kong. And, with the association keen to fulfil its mission statement of increasing the number of Hong Kong golfers from around 6,000 at present to 50,000 by 1996, Kau Sai Chau will be open to the public.

Though the island does not fit Hopkinson's criterion of being an urban-fringe area, the land designated for the courses was formerly used by the British army for shelling practice, and all parties seem agreed it is less valuable for wildlife than Shalotung. Even so, green groups have

generally been muted rather than supportive, with environmentalist Simon Chau voicing his opposition to any more courses being built in Hong Kong.

No-more-courses advocates like Chau seem fated to stand like latter-day Canutes, unable to resist the tide of golf that is sweeping Southeast Asia. Shalotung and Kau Sai Chau are not the only planned courses in Hong Kong, where schemes range from tentative ideas mooted by the golf association for courses on former landfill sites to rumoured Shalotung

lookalikes in scenic areas.

One developer has perhaps found an answer: a golf-for-nature swap. If a proposed course is built, a wetland sanctuary will be established and landscaped as an effective extension to the world-renowned Mai Po Marshes Reserve. For green groups that are perennially short of funds, and fearful of developments even worse than golf courses, the carrot could prove hard to resist. ■

Martin Williams is a writer based in Hong Kong who specialises in conservation issues.



Green-golf compromise: golf and nature at Prairie Dunes Country Club, Kansas and (top) Breckenridge Golf Club, Colorado.

In and Out of Order

In Search of Human Rights: Legal-Political Dilemmas of Indonesia's New Order, 1966-1990 by Todung Mulya Lubis. Gramedia Pustaka Utama, Jakarta. Rps 18,000.

Tax Administration and Compliance in Indonesia by Gitte Heij. Asia Research Centre on Social, Political and Economic Change, Murdoch University, Western Australia. No price given.

At first glance, these books by human rights activist Mulya Lubis and tax expert Gitte Heij don't appear to have much in common. But there is one important strand which ties them together: both illustrate critical vulnerabilities of President Suharto's New Order administration, now in its 27th year.

Lubis' treatise follows by a year the launching of a controversial book by fellow lawyer Adnan Buyung Nasution who, like Lubis, is closely affiliated with Jakarta's Legal Aid Institute. Nasution set out to debunk one of the New Order's most cherished myths: that Indonesians overwhelmingly agree that parliamentary democracy

— the prevailing political system in Indonesia from 1945-59 — is contrary to Indonesia's national character.

Lubis strives, with considerable success, to take on another of the New Order's

ideological pillars: the belief that human rights can only be defined in the context of Indonesia's particular cultural and historical traditions.

Since taking power, Suharto has maintained that certain civil liberties need to be curtailed in the cause of economic development, and that an individual's "duties" need to be emphasised over his or her "rights." In the subsequent quarter-century, Suharto's government has indeed made significant strides in lifting Indonesia's economic profile and improving the material well-being of individual Indonesians. But, in recent years, a growing slice of the Indonesian elite has been calling into question the social and political costs attached to Suharto's economic-development approach.

Lubis begins his book with a reminder that human rights were not always seen in Indonesia as a largely Western — and often unwanted — convention. The constitution in effect during the 1950s — when human rights were not seen as an East vs West issue — included all the provisions of the United Nations Universal Declaration of Human Rights, according to which human rights were seen as "inherently possessed by

Indonesian Conundrum

Managing Indonesia: The Modern Political Economy by John Bresnan. Columbia University Press, New York, US\$18.50.

It is commonly believed that continuous economic growth eventually produces a more open political culture. This has not been the case for Indonesia. When political expression was relatively free before 1965, economic conditions were poor. Today Indonesia is one of the many economic success stories in the region. But there is no political plurality; President Suharto is now in his 27th year in office.

What is the relationship between economic development and wider political participation? In his introduction to *Managing Indonesia*, John Bresnan explains how his book attempts to answer the question: "Was authoritarianism necessary for Indonesia's economic and social development over the past generation? Is it still?" His answer is a qualified yes — and then a qualified no.



Jakarta political rally: whither authoritarianism?

This book covers the period of the New Order, starting from the coup in 1965 that put Suharto in power up to 1991. Bresnan analyses this period by studying a series of major political and economic events. It is to his credit that while explaining political events, he presents a complete set of economic statistics for Indonesia, covering the last two-and-a-half decades, which he analyses thoroughly and presents in a readable manner.

This is especially evident in the chapter about the Tanjung Priok incident, in which Muslims of the port of Tanjung Priok clashed with the military in 1984. The death toll, according to Bresnan's research, was "as many as 63 killed and more than 100 severely wounded. Families subsequently reported 171 as missing."

In this chapter, Bresnan illustrates just

how complex and unpredictable Indonesian politics can be, and, most importantly, how political incidents never stand alone. After providing an account of the depressed economic environment of the multi-ethnic port at that time, Bresnan gives everyone's point of view: the government's; the

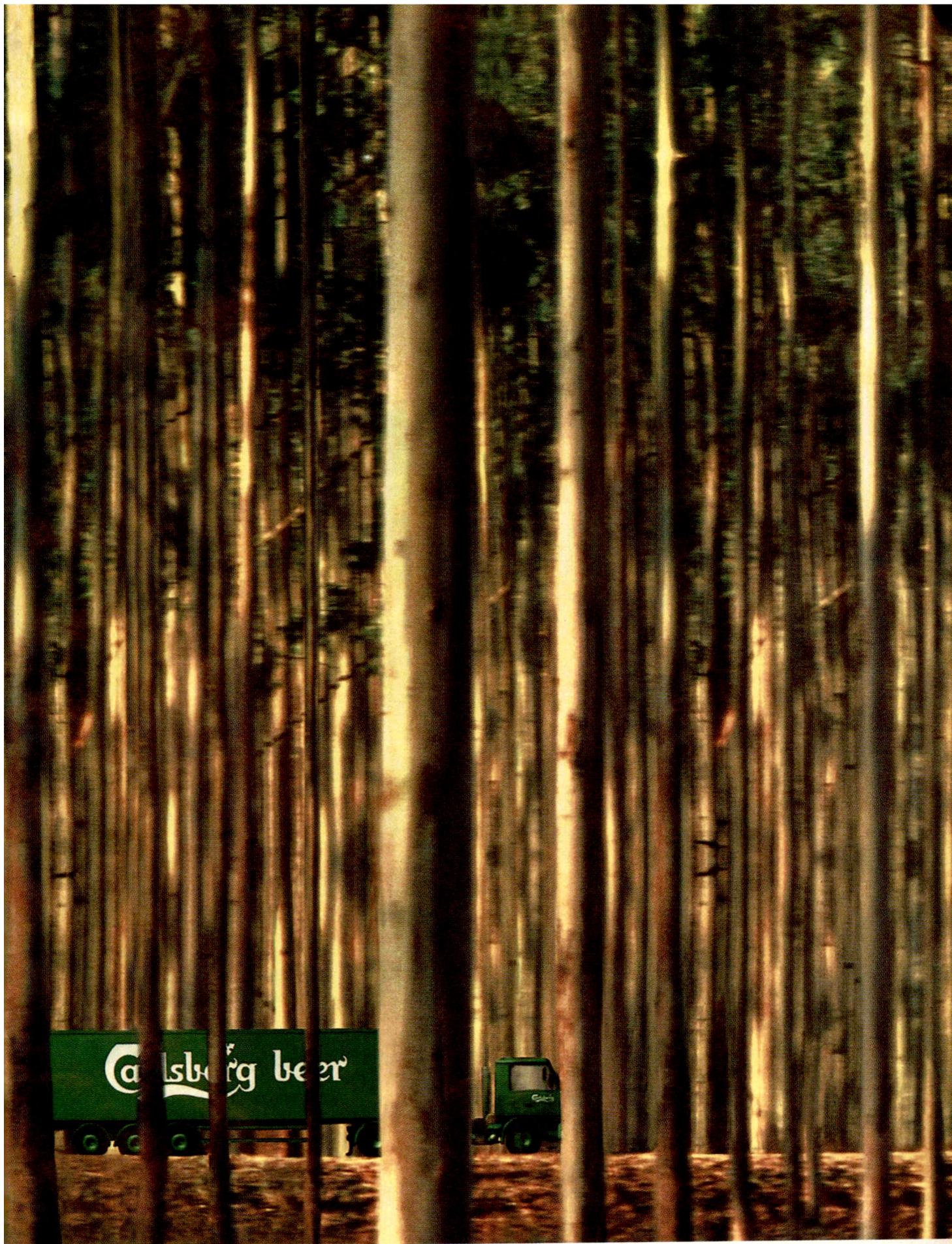
lay preacher, M. Nasir (who set off the social unrest with his sermons), and the Petition of Fifty Group, with its pamphlets and speeches.

Bresnan concludes that "... the authoritarian nature of Indonesia's political regime was essential to the character of many of the policies that promoted the country's growth and development." But regarding the future, he finds that "... much private commentary clearly indicated that many in the military and civilian elite felt it was time for a change in the balance of civil-military relations."

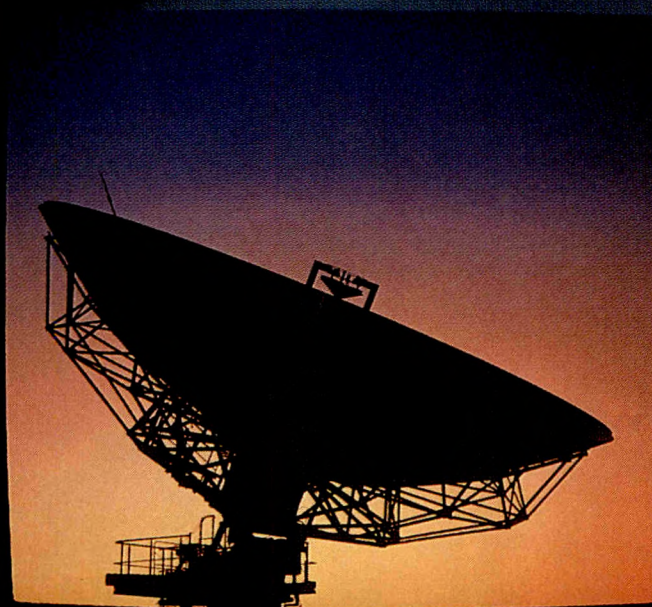
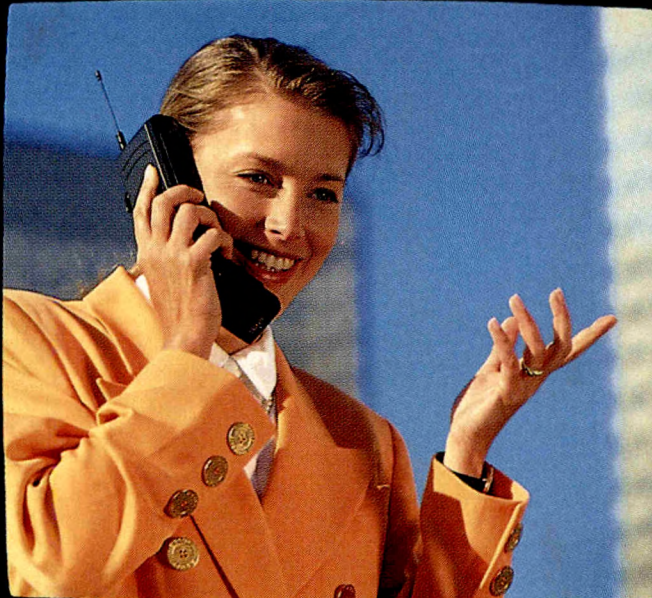
This is one of the most useful studies of Indonesia, both for specialists and general readers who want to learn about Indonesia's history and future.

■ Ratih Hardjono

Ratih Hardjono is a writer currently at Harvard University on a Nieman Fellowship.



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human beings by virtue of having been born," rather than, as is the case today in Indonesia, something to be granted to individuals by the government.

Lubis goes on to detail how the curbs Suharto has placed on civilian political activity, the press and non-governmental organisations have enormously weakened the ability of Indonesians to resist the dictates of the state. He closes his well-reasoned book by warning that a refusal to join civil and political rights to the economic rights already enjoyed by Indonesians will "inevitably lead to serious setbacks, possibly ending in anarchy or social revolution."

Heij, a researcher at Murdoch University's Asia Research Centre, highlights another fault line in Suharto's governing approach. After taking a sober look at the inner workings of Indonesia's woefully inefficient tax department, she concludes that the real obstacles to reform are basically political. Operating in a business environment that is marked by corruption, inadequate legal protection and pervasive government-business collusion, Indonesian tax collectors are limited in what they can achieve.

Since the early 1980s, to be sure, Indonesia's tax administration has improved markedly. But in terms of total tax receipts as a percentage of GDP, Indonesia lags behind its neighbours by a substantial margin.

With oil prices now in decline, the pressure on Indonesia's tax office to mend its ways and collect more revenue grows more intense by the day. But that is a tall order. At present, only about half of registered Indonesian taxpayers bother to pay any tax at all. The tax office continues to be widely perceived as graft-ridden, and many feel that Indonesia's rich and powerful are excused from paying their fair share.

"There is a very practical reason for tax evasion: the small chance of being caught," Heij points out. But addressing this shortcoming is more than a matter of strengthening the tax code or adding new auditors — although both are sorely needed. It will also require a political decision to level the taxpaying field.

"It may not be possible," she diplomatically notes, "to investigate tax evasion and fraud as long as there is no serious political will to improve the tax revenue of certain people and groups of people."

■ Adam Schwarz

Adam Schwarz, a former REVIEW correspondent in Jakarta, is now based in Bangkok.

Wounded Burma

Irrawaddy Tango by Wendy Law-Yone.

Alfred A. Knopf, New York. US\$23.

Inked Over, Ripped Out: Burmese Storytellers and the Censors edited by Anna J. Allott. PEN American Centre, New York. US\$5.

Tango, a pepper-tongued Asian beauty, rises from girlhood in a small village in "Daya" to become the wife of the dictator of this fictitious Asian country and then leader of the rebel forces arrayed against him. She dances through life until she is captured by the "Jesu" guerillas in "the Punished Provinces." From a prisoner she becomes a foot soldier and then a commander.

"Daya," as the title *Irrawaddy Tango* suggests, is, of course, Burma, "the Land of Compassion . . . In the old days it was the Jewel of South-east Asia, but what's not in the guidebooks, old or new, is that daya, the word for 'compassion,' is also the word for 'wound'."

Torture — commonplace in Burmese prisons — is described in detail, and Tango also rejects old stereotypes of Buddhist countries: "Buddhism! say the Western experts,

trying to account for the long-suffering inaction of Buddhists — and forgetting, no doubt, the levels of violence achieved by disappointed Buddhists throughout Asian history."

"Daya's" dictator bears a suspicious resemblance to Gen. Ne Win, Burma's military ruler who seized power in 1962, "the Supremo, the architect of misery." Wendy Law-Yone, the author, is the daughter of Edward Law-Yone, one of Burma's most prominent journalists in the 1950s, who was imprisoned after the military takeover, and who in the late 1960s tried — unsuccessfully — to organise resistance against Rangoon from bases near the Thai border.

But the exact identity of the country hardly matters. The author has chosen Burma simply because she grew up there. Like Law-Yone's first novel, the much-acclaimed *The Coffin Tree*, *Irrawaddy Tango* is a beautifully written book about human nature and to what extent people can go to probe the boundaries of sanity.

It is also about dreams and visions of freedom: "I'll tell you something about

freedom," one character says. "I've known what it is like to be free. Free to come and go and make a living without the daily fear of getting killed. But freedom without purpose is no freedom . . . that kind of freedom can even become a burden and leave you empty."

That emptiness, and urge for freedom, is also a common thread in *Inked Over, Ripped Out*, a collection of short stories by Burmese writers, masterfully translated by Anna Allott of the School of Oriental and African Studies in London. The title alludes to methods of censorship in today's Burma: all books and magazines are submitted to the army-controlled Press Scrutiny Board after, not before, printing.

In this way a strict self-censorship is imposed on the publishers, since anyone found violating Burma's rigorous censorship laws is severely punished. If any story, poem, cartoon, passage or word is not accepted by the board, it must be removed before the publication can be sold. This is done by tearing out pages, inking over the offending passage with silver paint, or sticking opaque tape over it.

All the stories in Allott's collection were written after the upheaval of 1988, and thus reflect the present mood of many Burmese intellectuals. San San Nweh's *The Children Who Play in the Back Alleyways* — which was torn out of the magazine in which it was going to appear in 1989 — is a gripping tale of the murder by the military of a school teacher during the 1988 upheavals.

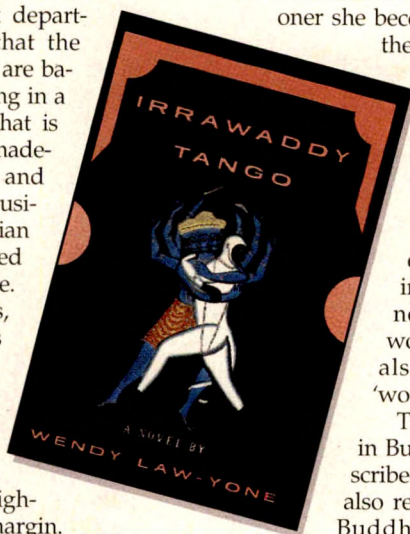
The Burmese military has since then built a number of parks and children's playgrounds to make its rule more palatable, and to win over the subjugated population. But, as San San Nweh suggests in her short story, the army has not succeeded: in honour of the teacher and others who were killed in 1988, many children still prefer the back alleyways to the new parks.

Nyi Pu Lay, an author who is now in jail in Mandalay, depicts life in his hometown, and how it is being taken over by merchants from China. The title of his story, *The Python*, suggests a lack of sympathy for the carpetbaggers who have invaded the cultural and intellectual capital of Burma.

Many of the new merchants in Mandalay are making fortunes from the trade in opium from the infamous Golden Triangle, and, as Allott writes in her introduction to Nyi Pu Lay's short story, "it is a bitter irony that an author who voices the anxieties of so many of his fellow countrymen concerning the undesirable results of failing to control the production and trade in opium should be locked up in prison."

■ Bertil Lintner

Bertil Lintner is a REVIEW correspondent based in Bangkok.



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IN ASIA



Powering Asia: Rolls-Royce has supplied jet engines for many of Asia's airlines.

Rev Your Engines

With their economies sluggish and forecasts ranging from foul to fair, German Chancellor Helmut Kohl and British Prime Minister John Major ventured separately last year to the brighter pastures of East Asia. Upon their return to Europe, they compared notes. "We swapped impressions of the economic dynamism of that region," says Major. "Unless we're competitive, it's a very serious threat."

Certainly the World Bank thinks so. In a new book titled *The East Asian Miracle*, it provides an exhaustive account of the world's fastest-growing region and how it got there. Expanding at 5.5% annually for 30 years, the so-called eight "Tiger economies" have caught the attention of developed and developing countries alike. During his visit to Japan last September, Major said his government is determined "to give Asia a new place in our national priorities," suggesting that

in the process the U.K. should develop a "special relationship" with Japan. In the past, British leaders have reserved such classifications for their good friends in the United States, historically the country's most important trading partner. But these are the 1990s, and the economic numbers being posted in Asia make the continent difficult to ignore. Consider the following:

► The five fastest-growing economies of Asia hold US\$250 billion in foreign reserves, says the World Bank, some three times more than Japan.

► Mainland Chinese spent more than US\$200 billion on consumer items last year, including televisions, videocassette recorders and stereos. But that is only the tip of the iceberg. Inveterate savers, mainlanders squirrel away nearly 40% of

their monthly income, a collective coffee-cup savings of nearly US\$1 trillion by the end of 1993, according to estimates by the People's Bank of China.

► Vietnam's first supermarket opened and closed in October. Although it has since re-opened, overwhelming demand in the first four days shut it down.

► Singapore's economic growth rate is estimated at 8.2% for 1994, while unemployment tops out at 2.7%.

► Only one in 10 people live below the poverty line in Asia, the World Bank reports, down from one in three in 1970.

► With its unemployment rate at 3.3%, Malaysia is easing immigration restrictions because it needs unskilled workers to take over service-industry jobs. Elsewhere, unemployment figures are equally enviable: Indonesia, Hong Kong and Japan all post jobless figures under 3%.

"We see enormous opportunities in the region," says Geoff Landamore, regional executive for Rolls-Royce Interna-

This special supplement was written by Anthony Blass.

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tional, the British aviation and power generation giant. Increasing air traffic in Asia alone is expected to boost revenues at the company's jet-engine division by US\$10 billion over the next 15 years. "The biggest obstacle we face," says Landamore, "is competition. It's intense."

Indeed, with unemployment in Western Europe approaching 11% and some economies still in decline, expansion opportunities lie increasingly in the East. And not just for companies. Throughout the 1980s, Europe created almost no new jobs in the private sector, while expanding health, disability and pension benefits. High payroll taxes, generous benefits and a rising minimum wage have made low-skilled workers a luxury in much of Europe. Unable to find jobs at home, many young Europeans are flocking to Asia as economic refugees.

This new breed of expatriates can't afford a car or designer clothes, and doesn't pass time in upscale night clubs. Some, in fact, live in public housing. Increasingly, though, they are part of the equation that is contributing to Asia's rising affluence, and many find themselves working for European companies abroad.

Because of their unique history in the region, British firms in Asia have particular appeal for locals as well as foreigners, though many of those jobs are skilled positions in engineering, financial services and aviation. Unlike the last flood of investment to Asia, when developed countries looked mostly for cheap land and cheaper labour, British companies now view Asia as a market in its own right, bubbling with cash-rich consumers. China, for example, while still poor by most measures, boasts 16 million so-called "affluents" (people who earn the equivalent of more than US\$150 per month). That is just slightly lower than the entire population of Malaysia.

Earning power across the region is increasing exponentially, and British firms from Rolls-Royce to the Barclays Group to Glaxo are contributing and cashing in. Exports to the region from the U.K. increased 28.9% last year to US\$17.7 billion from US\$13.7 billion in 1992. Imports from Asia were up 21% as well to US\$32 billion in 1993 from US\$26.4 billion the previous year. On total two-way trade of US\$49.7 billion

last year, the U.K. has a trading deficit with Asia exceeding US\$14.3 billion.

In India, however, Britain enjoys a small trading surplus of US\$62 million on more than US\$3.3 billion in two-way trade. Following Prime Minister Major's visit there last year, those numbers should steadily improve. In 1993, British Gas established a joint venture with the Gas Authority of India and the government of Maharashtra state that will call for an investment of US\$150 million over the next 10 years.

The project will use gas from the offshore Bombay High Field and will involve the setting up of a gas-distribution

network to serve more than 600,000 commercial, domestic and industrial customers in the greater-Bombay area. The deal is heralded as a victory for private enterprise on both sides.

Indian officials, meanwhile, say the deal represents another example of the country's deregulation and commercialisation policies under Prime Minister P. V. Narasimha Rao, who has slashed import tariffs, supported stronger copyright laws and floated the rupee. With growth eclipsing a robust 5%, India should remain a favourite investment target for Britain, though inflation has become a concern lately, topping 9% in March.

Inflation also represents the No. 1 worry for many foreign investors in China. Double-digit economic growth and a fluctuating currency have taken their toll, igniting urban inflation that in some cities exceeds 30%. Rising costs, however, have hardly slowed bullish British investors, including BP (HK) Ltd. and Inchcape Pacific.

Imperial Chemical Industries (China) Ltd. (ICI), like many British-based companies operating on the mainland, boasts trading ties with the Chinese that date back to the last century. By 1928, ICI had established a head office in Shanghai with 16 branch offices throughout China, from which ICI provided agrochemicals and pharmaceuticals, among other products. Like many foreign companies, ICI left China after the communists prevailed in 1949. In the 1980s, ICI again established marketing offices in China, and last year opened its first manufacturing plant on the mainland, a paint factory in Guangzhou.

Not only are British companies investing in China, but China is buying British products as well. Exports from the U.K. to China jumped a whopping 71.8% last year to US\$1.1 billion from US\$642 million in 1992. With GDP growth estimated at 11.5% for 1994, China should become an even more important trading partner.

Although recent relations have become a bit strained, Malaysia in 1993 was among Asia's most enthusiastic buyers of British goods, absorbing US\$1.4 billion in imports from the U.K. last year, a 51.9% jump over 1992. But those numbers may ease a little in 1994 after a decision ear-

Numbers Don't Lie

British trade

US\$ million

Exports to:	1993	1992	% change 1992
Japan	3,960	3,322	+19.2
Hong Kong	3,239	2,406	+34.6
Singapore	2,133	1,709	+24.8
India	1,687	1,410	+19.6
Malaysia	1,440	948	+51.9
South Korea	1,188	976	+21.7
China	1,103	642	+71.8
Taiwan	996	813	+22.5
Thailand	984	710	+38.6
Indonesia	494	466	+6.0
Philippines	457	306	+49.3
Vietnam	25	31	-19.4
Total	17,704	13,740	+28.9

Imports from:	1993	1992	% change 1992
Japan	12,740	11,109	+14.7
Hong Kong	4,473	3,578	+25.0
Taiwan	2,413	2,079	+16.1
Singapore	2,410	1,779	+35.5
Malaysia	2,083	1,646	+26.5
China	1,981	1,422	+39.3
India	1,625	1,287	+26.3
South Korea	1,607	1,349	+19.1
Thailand	1,149	958	+19.9
Indonesia	1,045	800	+30.6
Philippines	413	358	+15.4
Vietnam	33	18	+83.3
Total	31,974	26,428	+21.0

Source: British Trade Commission in Hong Kong and Central Statistical Office in London

REVIEW GRAPHIC © ADP/LAM



Barclays de Zoete Wedd acted as bookrunner and joint-lead manager to the US\$175 million 5 per cent Euro convertible bonds due 2001 for The Hongkong and Shanghai Hotels, Limited.

December 1993



Barclays de Zoete Wedd acted as arranger for the placing of HK\$310 million call warrants over the Hang Seng Index, with an underlying value of HK\$2 billion.

December 1993



Barclays de Zoete Wedd acted as lead international coordinator and underwriter of the US\$52 million international offering of 100 million B shares for Shanghai Diesel Engine Company Limited.

December 1993

Expertise
in
Asia.



Barclays de Zoete Wedd acted as lead manager to the US\$60 million 4 per cent Euro convertible bonds due 2003 for Kiatnakin Finance and Securities Public Company Limited.

November 1993



Barclays de Zoete Wedd acted as lead manager to the US\$50 million 0.25 per cent Euro convertible bonds due 2008 for Daewoo Corporation.

October 1993



Barclays de Zoete Wedd was appointed as adviser to National Development Company of the Philippines in the proposed privatisation of National Steel Corporation.

July 1993



Barclays de Zoete Wedd acted as lead manager to the US\$46 million rights issue and international placing for PT Kabelmetal Indonesia.

June 1993



Barclays de Zoete Wedd acted as lead manager to the US\$36 million 3.75 per cent Euro convertible bonds due 2003 for Sincere Navigation Corporation of Taiwan.

May 1993



Barclays de Zoete Wedd acted as joint global coordinator and international financial adviser in the US\$52 million public offering of the state owned PTT Exploration And Production Public Company Limited of Thailand, valuing the company at US\$339 million.

March 1993



Barclays de Zoete Wedd was appointed independent financial adviser to Pacpo Holdings Limited in the HK\$107 million purchase of a property development project in Wuhan (the People's Republic of China) from its parent company.

March 1993



Barclays de Zoete Wedd acted as arranger for a HK\$221 million warrant placing, with an underlying value of HK\$1.1 billion, in connection with the US\$150 million bond with warrant issue of New World Development Company Limited.

March 1993



Barclays de Zoete Wedd was international financial adviser to the semi-state owned National Petrochemical Public Company Limited of Thailand and was lead manager to the international tranche of the US\$91 million public offering valuing the company at US\$404 million.

January 1993



U.K. IN ASIA

lier this year by Kuala Lumpur to boycott British companies from government contracts.

Malaysian Prime Minister Datuk Seri Mahathir Mohamad ordered the boycott after the British press in January and February reported allegations that Anglo-Malaysian trade was tainted by corruption, including an alleged deal to link an aid grant for the Pergau dam project with a big arms sale. The origins of that arrangement go back nine years to a meeting in 1985 between Mahathir and then-British Prime Minister Margaret Thatcher.

"The Malaysian government will not budge from its decision," Mahathir said recently. Despite the acrimony, entrenched business interests have inexorably linked the two countries, which last year amassed US\$3.5 billion in two-way trade, an exchange of goods and services that experts say cannot easily be turned off. History may also be on Britain's side in this confrontation: the strong-willed Mahathir decreed a "Buy British Last" policy in 1981 after a sudden increase in British college fees for Commonwealth students, including his own son. That policy was rescinded officially in 1988, after three years of courting and cajoling by Thatcher.

Perhaps the biggest surprise in Asia — at least in British eyes — is trade with

the Philippines, which surged 31% from 1992-1993. In dollar terms, two-way trade is still relatively modest, about US\$870 million, but the Philippines and India are the only countries in Asia with whom Britain boasts a trading surplus, albeit slight. With its economy expanding by about 4.5%, inflation in check at 8% and crippling brown-outs on the decline, the Philippines should retain its investment and trade appeal in 1994.

But nowhere in Asia is investment appeal higher than Vietnam. After U.S. President Bill Clinton withdrew Washington's trade embargo in February, Western investors have been flooding Hanoi and Ho Chi Minh City looking for opportunities. Although two-way trade between the U.K. and Vietnam was a miserly US\$58 million in 1993, prospects for the future are bright. With Vietnam expected to spend US\$50 billion in infrastructure projects in the next six years, U.K. companies hope to participate. A delegation of British companies, including Gammon Construction and Costain Civil Engineering, met with Vietnamese leaders in March.

With most eyes now on American companies in Vietnam, British concerns may be at an advantage. Unless Washington lifts America's heavy tariffs on Viet-

namese goods, the country's products may be priced out of the competitive U.S. market. Hanoi does not have most-favoured-nation trading status with the U.S., which may confer opportunities on other Western players. Unfortunately for U.K. corporations, Japan, Taiwan, France, Germany and Thailand already have significant business interests in Vietnam, where inflation is in the single digits for the first time since the late 1970s and growth is hovering around 8%.

In 1987, only 3% of the Taiwanese population bought groceries in a supermarket, or its equivalent. By 1993, that figure had jumped to 50%. Little wonder, then, that Taiwan's appetite for British goods has pushed up its imports to US\$996 million in 1993 from US\$813 million the previous year. Because its economy draws 40% of its GDP from exports, the importance of Taiwan's trading regime cannot be overstated. As Taipei races with Beijing to win acceptance to Gatt, establishing partnerships with the island-country is becoming increasingly important to Britain.

Two-way trade with the world of US\$162 billion in 1993 pushed Taiwan to 14th place among trading nations globally, just behind China and Hong Kong. GDP growth for 1993 registered at 6%, its lowest in three years, while inflation was just 2.9% and unemployment fell to a 12-year low at 1.5%. Flooded with idle cash, Taiwan is seen by British businesses as a plum on Asia's investment tree.

Excluding Japan and Hong Kong, Britain does more business with Singapore than anybody in Asia. Exports to the city-state were up 24.8% in 1993, eclipsing US\$2.1 billion, or more than exports to Thailand and Taiwan combined. Growth for 1994 is again expected to approach the 9% figure that was logged in 1993.

With its expertise in finance, the U.K. hopes to establish a deeper presence in Singapore, whose economy is fuelled by financial services and manufacturing. If China's takeover of Hong Kong in 1997 does not progress smoothly, Singapore could well become the financial centre of Southeast Asia.

To the north, in Thailand, a fragile coalition government headed by Prime Minister Chuan Leekpai is openly wooing foreign investors. After two years of falling investments and increased competition from China and Vietnam, Thailand is enjoying a sharp rise in applications to its Board of Investment. Experts say Bangkok's policy of decentralisation and its GDP growth of about 8% are enticing more foreign money.

Two-way trade with the U.K. sur-

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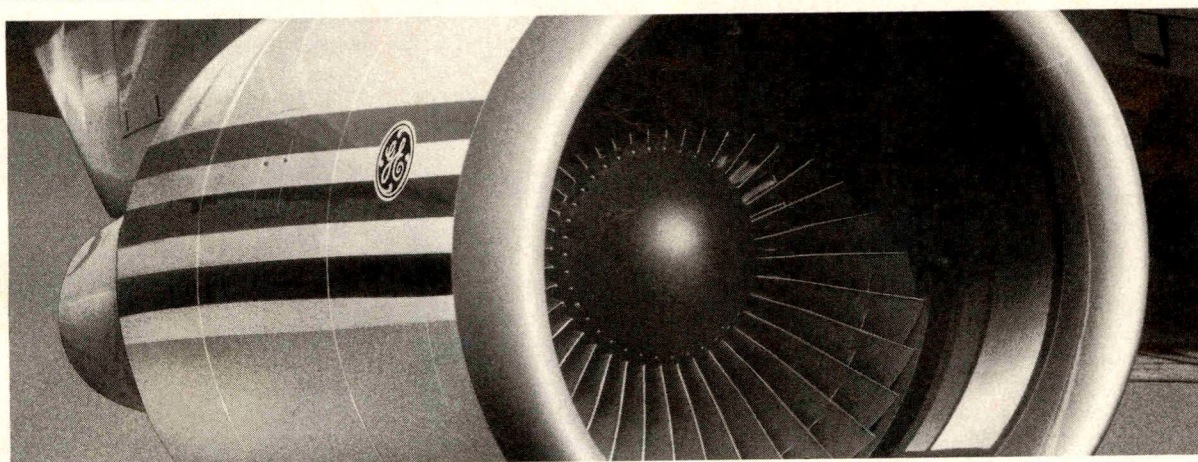
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ONE DRAGON.



THE WELSH ADVANTAGE.

PUBLIC RELATIONS

It Helps to be British

passed US\$2.1 billion in 1993, with exports to Thailand up 38.6% over 1992. Inflation, however, is worrying some investors. Rising wages, falling interest rates and a surplus of cash have fuelled a buying bonanza in Thailand that troubles some analysts. Stalled infrastructure projects and clogged highways in Bangkok remain most troublesome to local and foreign business interests alike.

If Bangkok is a crowded venue for investors, Hong Kong is just plain strange. Try as it might, the British colony cannot escape its own wealth. Last year, the territory's financial secretary, Sir Hamish Macleod, promised to engineer a deficit budget for 1993 — a year filled with capital spending projects that should have erased Hong Kong's string of surpluses. It didn't. Another surplus, largely attributed to skyrocketing land prices, has allowed Hong Kong to lower its corporate-profits tax by 1% to 16.5%.

British business with the colony already surpasses all but its trade with Japan. Exports to Hong Kong totalled US\$3.2 billion in 1993, up from US\$2.4 billion in 1992. The return to Chinese rule in 1997 does not appear to have influenced business interest in Hong Kong, at least for the moment. "As far as trade and investment is concerned, 1997 makes no difference whatsoever," says Francis Cornish, the British Trade Commissioner there. "From a trader's point of view, 1997 is just a date on the calendar."

Britain's most important trading partner in Asia, however, remains Japan. Two-way trade exceeded US\$16.7 billion, or one-third of all British trade with Asia. Imports from Japan exceeded exports by a whopping US\$8.8 billion, which is more than half the US\$14.3 trading deficit Britain has with Asia.

Whatever those numbers mean in Tokyo they mean concern in London. Last September, when John Major visited Japan and dined with then-Prime Minister Morihiro Hosokawa, he shared his country's anxiety over Japanese business prowess. "Until the 1980s," Major said, "we in Britain were frightened of your surging economic might." But that is changing. During dinner, the British prime minister toasted his hosts and suggested that Japan could become a permanent member of an expanded United Nations Security Council, if it desired.

After lavishing praise on his guests, Major also took a moment to boast. He noted that Britain is the largest European investor in Asia, the largest European exporter of invisibles, and the second-largest European exporter of goods. "We shall do better," he then added. ♦

When Vincent Donohoe, an Irish inventor and businessman, came to Hong Kong to promote his latest innovation — a Liquid Crystal Display widescreen TV — he sidestepped the big-name public relations firms.

Instead, he phoned Stuart Newell, a former journalist in London whose small PR company has claimed a short, but impressive, list of international hi-tech clients since it opened last summer. "I hear you are a lone ranger with a lot of energy," enthused Donohoe.

Like many clients, Donohoe had a long wish list and a tight deadline. In several days, he wanted Newell to compose news releases in English and Chinese, arrange for studio-quality product photographs and

into China's cheaper and labour-rich Guangdong province, the local economy has become service-oriented. Accountants, attorneys and architects abound. Many are British. To promote them, another service industry has ignited: public relations.

Of the 80 or so public relations firms in Hong Kong, British-related companies dominate the landscape. Many, like Newell's, are small, niche operators who nurture a handful of corporate clients. Others, such as Gibson Public Relations and Corporate Communications Ltd., boast more than a dozen communications professionals and offer a comprehensive range of marketing and PR services throughout the region.

Increasingly, though, smaller specialised firms are winning clients. Newell, who started his business last June in a spare room in his apartment, now has a genuine office, a fledgling staff and a client base that includes, among others, the international Business Software Alliance and Cisco Systems, an American company that some say is the most influential computer networking firm in the world.

Many of Asia's leading hi-tech companies are retained by Newell's former employer, Euan Barty Associates. Euan Barty, 45, also is a former journalist from the U.K., who launched his business in 1988 on the belief that the larger public relations firms in Hong Kong lacked the expertise to represent technology concerns adequately. After six years, he has cultivated nearly 20 retainer clients, including Microsoft.

"I've found with larger agencies that they come to you with an idea and they try to sell it," says Alix Parlour, Microsoft's corporate attorney in Asia. "Their goal isn't so much to help you but to defend" their own idea or product. Smaller agencies, she says, "tend to listen better."

While listening skills are important, Messrs. Barty and Newell know that it also helps to be British. "I've been here 10 years or so, and I've worked for the government," says Newell of his ethnic advantage. "Being British, I've had access to a wide range of contacts and opportunities that have given me a head start." ♦



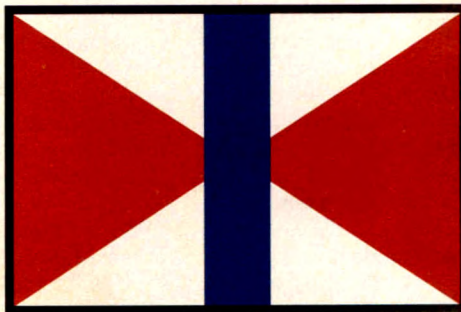
The better to see you with: Donohoe's LCD TV.

get press kits into the hands of 50 local editors and broadcasters before the unveiling of his TV at the Hong Kong Electronics Fair. On top of the that, he wanted Miss Hong Kong, Hoyan Mok, and film star Jackie Chan to introduce his product.

It took some doing, but Newell delivered. Not only did the celebrities appear, but four local newspapers — two Chinese and two English — ran prominent features about Donohoe's LCD colour TV, apparently the world's first. All four newspapers carried photographs and two used postcard-sized pictures on the front pages of their business sections. "You can't buy coverage like that," says Donohoe, whose TV is being manufactured in China and marketed by Kong Wah Holdings Ltd. of Hong Kong.

Ever since the mid-1980s, when factories in Hong Kong began to move north

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HONG KONG

The Beat Goes On

If the spectre of 1997 is worrying Hong Kong's foreign executives, they aren't showing it. "Business-wise," says Nick Rhodes, a general manager at the Swire Group, which has its hand in several industries, including aviation, shipping and property development, "1997 has already come and gone."

Politically, of course, the fate of Hong Kong remains an open question, one that won't be settled until China reclaims the colony in three years. For British companies in the territory, the enduring acrimony between Beijing and London over the city's expanding democracy leads some to fear that China may one day

British companies in setting up operations in Hong Kong, China, Taiwan and Macau.

Its success is revealed, in part, by trade figures. Last year, exports from the U.K. to Hong Kong totalled US\$3.2 billion, a jump of 34.6% over the previous year, while imports from the colony to the U.K. soared 25% to US\$4.5 billion.

Although the value of Hong Kong's imports from the U.K. and exports to the U.K. remained slightly in Hong Kong's favour for most of the 1980s, an explosion of re-exports beginning in 1986, principally from China, swayed the balance heavily in Hong Kong's favour. In 1985, for example, Hong Kong en-

Gammon is one of the contractors responsible for the much talked-about Tsing Ma Bridge, a 2,160-metre single span bridge that will bring traffic to Chek Lap Kok airport via Lantau Island. In addition to the airport project, Gammon has helped build, among other things in Hong Kong, Jardine House, Admiralty Centre, City Centre, Edinburgh Tower and the city's most prestigious edifice, Exchange Square.

Although Britain's signature is all over Hong Kong, it's difficult to say how much the U.K. has invested in the territory. Of the 800 British companies here, about 12 are listed on the local stock exchange, where they boast a combined valuation of US\$143 billion, according to the British Trade Commission. "That's only the tip of the iceberg," says British Trade Commissioner Cornish. "Our stake here is phenomenal."

Many companies, including the Swire Group and Gammon, view Hong Kong

as a venue to pursue further interests in China. Inchcape Pacific, a regional subsidiary of Inchcape Plc in the U.K., also has its eye on China. An international services and marketing group that represents some of the world's best-known companies, Inchcape Pacific has five representative offices in China, located in Beijing, Shanghai, Guangzhou, Shen-



What a view: Gammon has helped build much of Hong Kong's skyline, including Exchange Square (right).

retaliate against British business interests. In the meantime, though, Hong Kong remains very much business as usual.

"The great strength of Hong Kong," says Rhodes, "is that business and politics have always been divorced. And right now, on the business side, we see a lot of room for optimism."

As a Hong Kong company with a British pedigree, the Swire Group also is optimistic that it would escape any punitive measures meted out by Beijing against British concerns. Others are not so hopeful, and in their eyes, investment in the territory is not without its risks.

Even so, some 800 British companies have established a presence in Hong Kong, including many that use the territory as a springboard into China. "From architects to lawyers to accountants, the City of London is replicated in Hong Kong," says Francis Cornish, the senior British Trade Commissioner in the colony.

The British Trade Commission assists

joyed a trade surplus worth HK\$1.2 billion (US\$155 million), a figure that swelled to HK\$3 billion the following year and to HK\$11.8 billion in 1991.

As impressive as all the numbers may seem, they represent only "hard" trade figures, not so-called "invisibles," such as the capital flow registered in the financial-services sector. By some estimates, including Cornish's, those "invisible" numbers would double the U.K. export figure to Hong Kong. "We have a trading stake here of about £4 billion (US\$5.9 billion)," he says.

British consultancies, in fact, dominate in Hong Kong. According to some estimates, British firms have secured one in seven of the consultancy projects related to the new airport, which is estimated to cost nearly US\$22 billion dollars, if other related infrastructure projects are included. Among those British contractors is Gammon Construction Ltd., which has been changing the face of Hong Kong for the past 34 years.

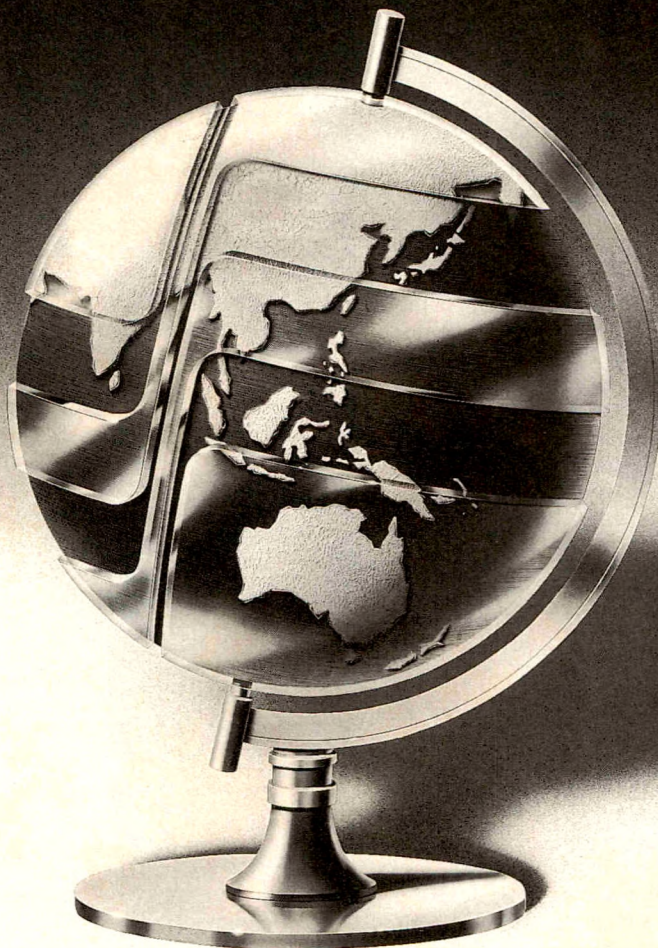
zhen and Nanjing. These offices focus on consultancy work and sales of capital equipment.

Through joint ventures, Inchcape is further developing its China portfolio to include transportation, business machines, testing services, car repair and maintenance, as well as some manufacturing.

In Hong Kong, Inchcape Pacific is already the leading distributor of motor vehicles, responsible for 40% of all vehicles sold there. Last year, the company amassed a record HK\$1.17 billion in pre-tax profits, a 23% rise over 1992.

Despite uncertainties caused by Beijing's belt-tightening last year, Inchcape Pacific remains bullish. "After a buoyant first half," says the company's chairman, Paul Cheng, "motor exports to China fell back as a result of the austerity measures. Nevertheless, we believe the impact of those measures will be relatively short-lived." Apparently they have been. Inchcape last year won the exclusive franchise to sell Jaguars in China. ♦

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INVESTMENT IN THE U.K.

An Open Invitation

More than one third of the foreign direct investment flowing into the European Community (EC) goes to a single country — Great Britain. KMPG, a European management consulting firm, discovered part of the reason: a medium-sized company hiring 100 employees in Britain would save as much as £1 million (US\$1.5 million) per year on labour costs alone against the same company operating in Germany.

With union membership among its 28 million workers declining, Britain's labour costs are now as low as those in Portugal, Spain and Greece, and 35% lower than rates in Germany, Denmark and the Netherlands. Seeking to cash in on the potential savings, all of the top Japanese electronics firms have set up operations in the U.K., including Sanyo, Pioneer, Hitachi, Toshiba, Sharp and Panasonic. In addition to reasonable wages and skilled workers, these companies are looking towards Britain for access to the 12 member states of the EC.

"More and more Asian companies are locating in the U.K., including companies from South Korea and Taiwan," says John Haran, the director in Taiwan for the Industrial Development Board for Northern Ireland. "They are looking for competitive labour costs, sound infrastructure and access to the European market."

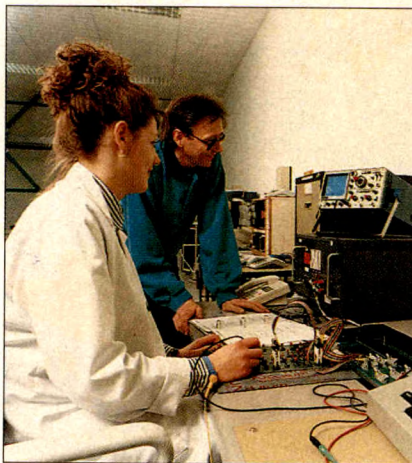
Y. J. Park, president of Shinsung Industrial, a Korean electronics manufacturer, found what he was looking for in Northern Ireland. "It offered a supply of skilled staff and well-educated people, efficient transport services and a track record of industrial expertise," he says. "Our decision to invest in Northern Ireland followed discussions with a number of Korean and Japanese companies already based there."

Until recently, the U.K. was a leading beneficiary of foreign investment primarily because of United States business interests. As early as the 1920s, Ford and General Motors built large factories in the U.K. — only to be followed overseas by other U.S. multinationals, including Dow Chemical, Coca-Cola, Eastman Kodak and Texaco.

Although the U.S. has been eclipsed by Japan as the world's leading foreign investor, Britain remains one of the world's favourite targets. All three of Japan's top car makers have located in

the U.K. Indeed, Nissan's plant in the northeast of England is considered a model, logging the most efficient output of any auto maker in Europe, while Toyota's factory in the East Midlands — built at a cost of £750 million — is the biggest Japanese investment in Europe.

Despite these successes, or perhaps because of them, there is considerable competition within Britain for foreign investors. Among the most aggressive suitors is the Northern Development Company, a regional development agency founded in 1986 to lure foreign investment to the counties of Cumbria, Durham, Northumberland, Tyne, Wear and Teesside.



Japan's Fujitsu has set up in Ireland.

In an international survey undertaken by a Brussels-based consultancy group, Plant Location International (PLI), the north of England ranked first in 1993 as the most accommodating region in the world for foreign investors. Based on a questionnaire evaluating factors such as labour cost, infrastructure and financial incentives, PLI concluded that the north of England was a better choice for investors than Cape Province, South Africa; Shenzhen, China; North Carolina, U.S.; and Buenos Aires, Argentina. The report by PLI concluded that the region "deserves the highest rating — two points short of a faultless score."

"To come out at the head of the list and with such an emphatic score is tremendous," says Sir Ron Dearing, chairman of the Northern Development Company. "We are a world class region and extremely proud of the fact."

From 1985 through last year, the north of England attracted more than 330 overseas projects, including 69 from Japan, Hong Kong, Singapore, South Korea and Taiwan. Those investments have created or preserved 38,000 jobs and represent more than £3 billion in capital spending. In a coup for the U.K. last year, Thailand committed its first manufacturing facility in Britain, when household-furniture maker Siam Furniture announced it would establish a presence in Middlesbrough, Cleveland.

Improvements in the U.K. workforce are a key calling card. As recently as 1989, the Department of Employment in London reported 161 working days lost per 1,000 employees to strikes and other stoppages. But following a series of labour laws introduced in the mid-1980s and a decline in union membership from 13.3 million in 1979 to 8.5 million last year, those workplace disturbances have diminished. In 1992, only 20 working days were lost per 1,000 employees. Specific laws that have eased labour-management tensions have also helped, including those that have: strengthened the rights of individual union members; removed the right of strikers to tax-rebates and social security benefits; made unions liable for damages resulting from unlawful industrial action, and required pre-strike ballots of union members. Although the percentage of unionised public workers remains high — some 69% — it has fallen below 25% in the private sector.

One effect of the falling membership is that U.K. unions have consolidated, leaving eight of the largest unions with one-half of the country's organised labour. This has effectively ended the rivalries that had caused so many of Britain's labour problems in the 1960s and 1970s.

In addition to a skilled and ambitious work force, part of the U.K.'s appeal is its access to financial institutions. Not only does London dominate the European financial markets, but it remains one of the biggest centres for international bonds and cross-border currency transactions. Because of London's importance, nearly all of the major financial institutions are represented there, which means that many companies are able to deal directly with a branch office of the same institution that serves the company's head office.

Just as London prevails over other European financial markets, the U.K. dominates as Europe's biggest source of venture capital. Through the end of 1992, Britain accounted for fully 43% of all the funds raised in the EC, far ahead of second-place France with 19.5%. ♦



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To find out more about Northern Ireland, call or write to Mr. Maynard Mawhinney at the address shown.



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TECHNOLOGY

More Than a Token Showing

Seven years ago, when IBM introduced a new technology that has since become an industry standard for linking personal computer networks, few analysts expected a viable challenger to emerge, especially since Big Blue dominated the hardware sector and boasted a broad client base.

But conventional wisdom did not take into account Robert Madge, an entrepreneurial-minded college drop-out from Buckinghamshire, England, who took out a £300,000 (US\$203,000) loan against his farm in 1987, hired four engineers and set up a computer company in his barn.

For the past five years, Madge Networks has been one of Britain's fastest-growing companies, doubling its sales each year and expanding to North America, Africa — and Asia. Last month, Madge, 41, established an international headquarters in Hong Kong, from which he hopes to exploit the growing regional market for so-called "token ring" technology.

Developed and marketed first by IBM in 1986, the software-based technology increases the processing power of individual PCs in a network, thus enhancing the system's speed and diminishing the need for costly mainframe computers and the high-paid technicians who babysit them.

"In 1987, very few people dared to take on IBM, which owned the token ring technology and the customer base," explains Madge, whose barn-based engineers developed their own token ring products, some of which Madge claims are superior to IBM's. "If we have succeeded," he says, "it was because of our courage." He pauses and smiles. "Or maybe it was our ignorance."

By almost any measure, Madge Networks has enjoyed success, and much of it at IBM's expense. While IBM still claims a staggering 70% of the global token ring market, Madge has moved into second place with a 10% share, outpacing rivals Olicom and Proteon. The question now is whether he can transfer to Asia the winning formula that worked so well in the United States and Europe, where sales skyrocketed to nearly US\$130 million in 1993 from less than US\$10 million in 1989.

Some believe Madge will encounter more growing pains in Asia where token

ring technology is not as well understood or as widely used. To be successful here, several experts say, Madge networks must market itself aggressively and develop strong relationships with existing and potential clients, including many who still use an earlier, hardware-based networking standard called Ethernet.

Madge Network's strategy for Asia, where it has about 100 clients, is to beef-up customer relations and support services by combining technically sophisticated salespeople with an established team of system engineers. Until recently, Madge had relied exclusively on six Hong Kong distributors to sell and service products locally.

Now, the international headquarters in Hong Kong will supervise and manage business in Taiwan, South Korea and eventually China. The regional office in Singapore is still responsible for Southeast Asia, however. Madge says the Hong Kong headquarters, with a staff of about 15, will establish a support infrastructure for its regional customers and distributors, providing hotline services, electronic mail and bulletin boards, in addition to technical support.

As it has done in the U.S. and Europe, Madge Networks also hopes to piggyback on IBM's marketing of token ring products in Asia. "They promote the technology," says Madge, "and we benefit from it by offering better products and better service." So far, token ring's biggest fans have been multinational organisations and government agencies that rely heavily on integrated computer networks. This technology allows users to upgrade and enhance their systems from a central location, using products such as adapter cards, hubs, routers and network management software.

But don't let the nomenclature slow you. Token ring has been described as the asphalt and traffic lights of what has come to be known as the information superhighway. By permitting the transfer of data among the hardware and software of various brands of computers, token ring technology smooths the speedbumps that would otherwise obstruct or slow the interaction of information.

To be sure, the system has some believers. Madge Network's client list includes American Airlines, the U.S. Federal Reserve Bank, Aetna and the City of Winnipeg. As for its future in Asia, Madge is characteristically bullish. "We've averaged 100% growth over five years in the teeth of the strongest possible competition and in areas of recession," he says. "Now, we are turning our attention to Asia, where economies are actually growing." ♦

INDOCHINA

Bright Prospects

When it comes to Laos, if investors considered only the numbers, they might not take a second look.

Indeed, Laos, a landlocked country of 4.4 million people, is among the five poorest countries in the world, with an annual per capita income of US\$230 and a total GDP of about US\$1 billion per year. On the other side of the Mekong River, in Thailand, an average large corporation earns more than the value of all the goods and services produced each year in Laos.

Noting that Laotians are perhaps better known for their charm than their productivity, one London newspaper reporter recently suggested that "Lao rice farmers have a reputation in this dynamic region for lying down, closing their eyes and listening to their crops grow in fertile paddy fields."

But don't be deceived. Just beyond those fertile fields, foreign investors see industrial promise. Along with neighbouring Vietnam, which in February enjoyed the lifting of Washington's long-standing trade embargo, Western businesses view Laos as the next investment frontier in Indochina.

With the official opening last month of a US\$30 million bridge linking Thailand and Laos, the road to further industrialisation has been laid. But if British corporations expect to cash in — and they do — they must first elbow past Thai investors who have already committed nearly US\$160 million in Laos, or 40% of its total foreign investment.

Still, British companies expect to make a go of it. Inchcape Pacific Ltd., a regional subsidiary of the U.K.-based Inchcape Plc, is among the more aggressive suitors in Indochina. An international marketing and services group, Inchcape opened a representative office in Vientiane, the capital of Laos, in June 1993. That same month, it established a wholly-owned company in Cambodia, Khmer Agencies Co., to handle the importing and distribution of a range of products, including wines and spirits and office automation equipment.

Five years earlier, in 1988, Inchcape became only the third foreign company at the time to open a representative office in Hanoi, the Vietnamese capital. The following year it opened a branch office in

U.K. IN ASIA

Ho Chi Minh City, Vietnam's largest city. In addition to distributing consumer goods, Inchcape Pacific provides consultancy services to multinationals operating in Vietnam.

For now, Vietnam, rather than Laos or Cambodia, represents a more promising return for British and other business interests in Indochina. Like Laos, Vietnam is among the world's poorest countries, but the country has a reputation for industriousness that Laos lacks. Indeed, Vietnam boasts an educated labour force, adequate arable land and rich natural resources, including substantial oil and gas reserves. And since Vietnam set aside Marxist central planning in favour of free-market economics in the late 1980s, its economy has come alive.

In the past year, Vietnam's settling of its debt to the IMF has uncorked a flood of new international lending, much of it for infrastructure development. British companies are taking notice: in March, a British business delegation visited Viet-

nam in the hope of establishing contacts that may lead to contracts for up to US\$50 billion in infrastructure projects planned for this decade.

Led by Brig. Christopher Hammerbeck, executive director of the British Chamber of Commerce in Hong Kong, the delegation included, among others, representatives from Gammon Construction, Costain Civil Engineering, Scott Wilson Kirkpatrick and Partners, Stand-

ard Chartered Bank, Hongkong and Shanghai Banking Corp., S. G. Warburg and Inchcape.

"The Vietnamese understand that before there can be any leap forward in a market economy, they must put their infrastructure in place," says Hammerbeck. "Given our expertise in civil engineering, banking and financial services, we feel we have a constructive role to play."

But British executives arriving in Vietnam for the first time will find their compatriots in the oil industry already well-established: BP, Anglo-Dutch Shell and independent explorer Enterprise Oil

have been drilling off Vietnam's coast for more than five years. And now, touting their experience in the North Sea, British firms are making a strong push for pre-eminence in the lucrative oil-services industry.

The British colony of Hong Kong, meanwhile, is second only to Taiwan in terms of foreign investment in Vietnam, with 139 projects worth US\$1.29 billion approved by the end of 1993. ♦



Standard Chartered is already in Vietnam.

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Discount stores in Japan are helping consumers to change their shopping habits.

MARKETING

Opening Time

Recession is accelerating a consumer revolution that is transforming Japan's retail-distribution system. For most Japanese, it's not a moment too soon.

By Charles Smith in Tokyo



In mid-1991, when Japan's second-longest post-war boom came to an end, the editors of *Nikkei Trendy*, an upmarket consumer magazine, thought they smelled trouble. "We'd been locating new outlets for Armani suits for our male readers, and teaching them how to choose between BMWs and top-of-the-range domestic cars," recalls the magazine's chief editor, Takao Kaneko. With the bubble just burst, the market for consumer advice suddenly looked rather bleak, the editors thought.

They were wrong. *Nikkei Trendy* changed course, and now publishes a lengthy section titled "Beat the Japanese Market," which points readers towards bargains in anything from beef to air fares. "The result is that circulation is up and advertisers love us," says Kaneko. So, ap-

parently, do foreign stock analysts trying to chart one of the most perplexing changes in Japanese shopping habits since the 1964 Tokyo Olympics unleashed the nation's first real consumer boom.

Three years into a recession, the mood in shopping malls these days is a combination of shock and common sense. Gone is the era when conformist consumers bought identical products at ludicrously inflated prices. What's more, say analysts, this is no mere cyclical change of mood, but a permanent shift in consumption patterns that ultimately will have vast economic and social ramifications. For one, it may well in-

crease Japan's capacity to absorb imports, allaying the trade tensions that so vex relations with the West. For another, it should leave millions of overworked salarymen better able to afford the fruits of the economic superpower they helped create.

In the near term, however, change is disorienting. The first to feel it are the 11 million employees of the retail-distribution sector, one of Japan's largest industries and one still dominated by the sort of small, mom-and-pop store that in much of the West succumbed long ago to the age of Wal-Mart. Japan's new austerity is accelerating the same sort of modernisation, as large, efficient operations with state-of-the-art inventory systems drive small, traditional retailers out of business.

"Japan is where the U.S. was 30 years ago as far as the structure of retailing is concerned," says Lehman Brothers analyst Dean Perry, "but it's not going to take that long to get to where the U.S. is today. Whatever else you may say about the recession, it's certainly speeded up the process of change."

Says Masaru Yoshitomi, vice-chairman of research for Long-Term Credit Bank of

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Japan, "Japan is undergoing what you could call a Schumpeterian change in its distribution system," referring to the theories of the late U.S. economist about how price changes can alter the relationship between producers and retailers. The transformation has a long way to go: at current yen-dollar exchange rates, Japanese retail prices are 80% above the OECD average.

The affluent "office ladies" (unmarried female office staff) who were at the vanguard of Japan's consumer boom in the late 1980s would certainly agree that things are not what they were. "A 25-year-old office lady whose father owned 300 square metres of land in Setagaya [a Tokyo suburb] could think of herself as having the same assets [in U.S. dollar terms] by the end of the 1980s as the owner of a luxury villa in Beverly Hills," says Yamato Shiine, former editor of *Hanako*, a weekly magazine aimed at the office-lady set.

Hanako had an avid readership. An August 1988 feature on where to get the best value in Chanel cosmetics cleared Hong Kong stores of their stocks within days. A 1989 piece on smart British restaurants brought a steady parade of young Japanese women — magazines in hand — that London waiters took to calling *Hanakos*. The recession has changed all that: *Hanako*'s affluent 25-year-olds are now cautious 30-year-olds, and the magazine no longer has the power to empty shops or fill restaurants.

"In the last three years, consumers have finally lost their dreams," says Shiine. "There's nothing more they really want to buy."

More to the point, they can't afford their dreams like they used to. "I personally wasn't greatly affected by the collapse of the bubble economy," says Taiko Nagaya, a Tokyo housewife whose husband works for a major company. "But I've friends who were badly hit when their husbands lost all their overtime income. Like a lot of other people I've shifted to buying things that will last, instead of always chasing after the latest model."

A 31-year-old real-estate salesman is more explicit: "In the old days, I used to drink at expensive bars almost every night," he says, "often spending as much as ¥50,000 [US\$485 at current rates]. Now I make the occasional visit to an *akachochin* [cheap drinking shop] — and I never spend more than ¥5,000."

George Fields, a marketing specialist teaching at Wharton Business School in the U.S. and Waseda University in Tokyo, lends some historical perspective to Japanese consumer attitudes. The first real revolution in Japanese consumption habits occurred in the mid-1960s, when families began buying the three "Cs" — cars, colour-TV sets and coolers — symbols of the good life that the post-war economic miracle had made affordable.

The era of "symbolic" consumption ended around 1985, when the so-called *shinjinrui*, or new human breed, showed up on university campuses and began questioning their elders' fixation with acquiring the same short list of consumer goods. Today, the *shinjinrui* have become "new families" — the most important age group for the retailing industry. "They may have been big spenders during the bubble years," says another analyst, "but now they have become the first generation of Japanese consumers to appreciate value for money."

Such people are disenchanted with the shops, as well as the goods, their parents favoured. That may be one reason, says Fields, why the traditional *depato*, which with elaborate service and high prices once dominated the retail industry, has been pushed out of one sector after another by discounters and other specialty retailers.

"In the old days, you might have gone to a department store to buy a camera,"

of film star Ginger Rogers). These stores minimise overheads by cutting staff to the bone, says Mike Allen, a retail analyst at Barclays de Zoete Wedd, and by exploiting the post-bubble collapse in land prices to reduce overheads.

Unlike traditional retailers, discounters are also confronting manufacturers on the issue of "suggested" retail prices, notably in electronics. Last November, discounters forced several leading electronics makers to stop printing recommended prices on some 1,500 products. Discounters now sell electronic goods as much as 40% below the old suggested prices (which manufacturers never had the legal power to enforce anyway), says Tadashi Saito, senior managing director of the Distribution Economics Institute of Japan.

Small local stores that once faithfully followed manufacturer guidelines were left wondering how to react. Their most common response, says Saito, is to look around the bigger discount stores, then slap an ex-



Top This

Japan's high prices, in US\$ *

	Tokyo	New York
10 kilograms rice	48.90	13.00
100 grams beef	4.50	1.75
1 litre milk	1.98	0.90
1 can Coca-Cola	1.05	0.75
1 can Budweiser	2.20	0.89
1 litre reg. gasoline	1.26	0.40
Taxi flagfall	6.00	1.50
1 Sony TR1 camcorder (with accessories)	1,450.00	1,030.00

* As of Sept. 1, 1993, when ¥100=US\$1 Source: Lehman Brothers

says Fields. Today, cameras and much else are the province of specialty stores. Even men's suits are shifting to a new breed of discounters — headed by Aoyama Trading and Aoki International — that minimise costs by ordering in bulk from manufacturers. Women's fashions, largely because they have to be distinctive, are one of the few sectors where the *depato* is holding its own, says Fields.

The first beneficiaries of the department-store slump were the so-called superstores, which started life in the 1960s as cut-price retailers of food and pharmaceuticals, later moving into clothing and household accessories. But even superstore sales — though not customer numbers — have shrunk over the last 17 months.

During that time, word has spread that the really cheap deals are available in places like the Kawachiya discount liquor and cosmetics chain, or Rogers — a group of deliberately scruffy food and appliance stores (whose elderly chairman was a fan

tra 5% or so on their own stickers. Small retailers try to make up the difference by offering better service — instructing elderly customers how to use new products, for instance.

But Saito also notes that manufacturers have begun distancing themselves from the mom-and-pop stores they once relied on to push their products. Most big electronics makers have stopped lending money to smaller retailers and don't even refer to them as *keiretsu*, or group member, stores any longer, says Saito. "Instead they're just called 'local shops,' no different in essence from any other retailers selling the same manufacturer's products," he says.

The next big advance for the "price destroyers" — as some economists have taken to calling them — could be in the food industry. Until the beginning of 1993, all of Japan's major food processors, including market leader Ajinomoto, set a complex array of "suggested" wholesale and retail prices for the thousands of products

鑽石是永恒的

In every language De Beers serves a growing diamond world

Points from Julian Ogilvie Thompson's
1993 Chairman's Statement

In the United States sales of higher priced items of diamond jewellery recovered in 1993 and in East Asia demand has increased substantially. Taiwan, Korea and Thailand are now the fourth, fifth and sixth largest diamond consuming countries and China, from a low base, is showing rapid growth.

Prospects in the United States again look healthy and vigorous growth is forecast in most countries of East Asia. Aggregate retail sales of diamond jewellery worldwide are expected to be ahead of last year and the rough

diamond market experienced a firm opening in 1994.



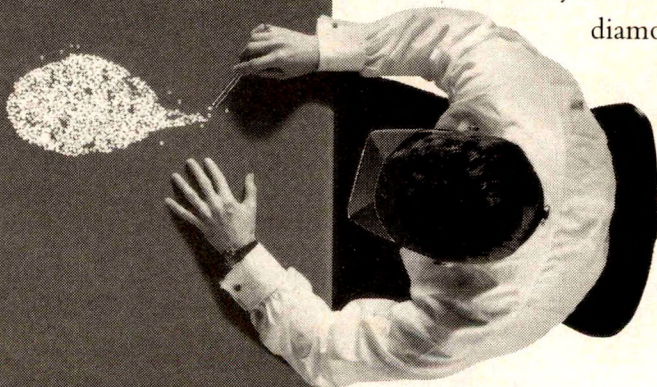
Record sales

The combined profits of De Beers and Centenary recovered by 21 per cent to US\$595 million. Equity accounted earnings were up 15 per cent at US\$873 million and the total dividend was raised by seven per cent. Total rough diamond sales for the year were a record US\$4,366 million – 28 per cent higher than in 1992.



Single channel marketing

This year the CSO and its clients celebrate the 60th anniversary of the Diamond Trading Company, founded in 1934 as part of the structure



Throughout the vigorous economies of East Asia the message is that diamonds are forever – as the characters above say.

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One has only to recall the chronic fluctuations in the industry and the impact on profitability and employment in the decades before 1934, when the industry was on the verge of collapse, to appreciate why all major producers and their governments consider it to be in their mutual interest to be committed to the CSO.



Partners, producers and prospecting

Concern has been expressed by the CSO and in the cutting centres over Russia's sales policy. We have good reason, however, to believe that stability in the diamond market and co-operation between the De Beers/Centenary group and Russia, the world's two major producers, are widely recognised as being in the common interest. The Russian

authorities continue to state that they have no wish to destabilise the diamond market, and we are confident that co-operation will extend beyond the life of the present contract.

Our relationship with the Botswana government, our partners in Debswana, a major world producer, is particularly close and negotiations with the Namibian government on the restructuring of CDM are progressing well.

Our discussions with the Angolan government will, it is hoped, lead to important decisions on buying, prospecting, mining, and marketing that could make a major contribution to economic recovery when peace is finally restored. We are in negotiation with the Tanzanian government over the rehabilitation of the Williamson mine and, following agreement with Ghana, a bulk sampling programme of the Birim river deposits has started. We have also reached agreement with Zimbabwe on the marketing through the CSO of diamonds from any mine we may discover.

We are actively prospecting, with some encouraging results, in eight countries on four continents including large areas in Canada's Northwest Territories, which appears likely to become a diamond producer in the foreseeable future.



South Africa

I am confident that De Beers will be able to develop relations with the new Government in South Africa at least as constructive as those it enjoys with other governments in Africa and elsewhere. De Beers/Centenary together form a truly international group, with roots that remain in South Africa. It shares with the majority of South Africans the hope that our political leaders, meeting at the highest level, will successfully address the issues that are greatly jeopardising the holding of free and fair elections.

The full Chairman's Statement with the Annual Reports of the two Companies for the year ended 31st December 1993 has been posted to registered shareholders. Copies may be obtained by writing to the London address below.

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they market in Japan.

"In a typical case," says Ajinomoto spokesman Yukio Moriya, "we would set a price for the primary wholesaler, another one for the secondary wholesaler with a 5% markup, and then another for the end-user [a restaurant] or the retailer, adding another 15% to the price. All this was subject to rebates for volume deliveries or length of service, to say nothing of wholesaler fees for using their own vans to collect goods from our factories. The system got so complicated that we could hardly blame foreigners for saying the market was opaque and impenetrable to outsiders."

In April, however, Ajinomoto abandoned "multiple price fixing" for its restaurant products, setting a single price for the first wholesaler and leaving the rest to the market (consumer products will probably be similarly freed within a year). Moriya says the object was "transparency," but it's clear that retailer pressure for discounts played a role in the change.

One powerful force for change has been the introduction of "private brand" foods by retailers — notably leading superstore operator Daiei — that undercut traditional prices up to 60% without compromising quality. Daiei kicked things off in 1991, offering its own "Savings" brand orange juice, a label it has since stuck on New Zealand ice cream, British tea bags and more than 300 local products.

Despite the apparent threat to their markets, Japanese manufacturers actually encourage private brands, says Daiei spokesman Akira Yajima. For one thing, making a product line specifically for a single customer eliminates the fear of ending up with surplus stock. Moreover, private brands still account for only a small fraction of product sales. (Daiei's share of overall retail sales is still only 1%, an insignificant figure compared with the giants of American or British retailing.)

However vaunted, the price-cutting revolution sweeping Japanese retailing may not help the economy recover, at least immediately. "Price-cutting by retailers means they have to cut costs as well, in order to survive, and not all are in a position to do that," says Ajinomoto's Moriya. He says administrative costs eat up more than 20% of the average superstore's revenue (against 12-13% for similar shops in the U.S.). But the mid- to long-term effects of the retail revolution can only enhance Japanese purchasing power.

"If we can get living costs down to a more reasonable level, Japanese consumers will have become really affluent, and we'll be able to start pulling our weight in the world economy as a market," says a government official. "To make that happen our task is simple: we have to try not to interfere with the changes that are taking place around us." ■

MARKETING



Is this Thai rice good enough for a Japanese?

Speak for Yourself

Japan's consumer groups face identity crisis

By Sachiko Sakamaki in Tokyo



Japanese consumers, once notoriously picky about quality and unbothered by high prices, are at long last coming down to earth. Abandoning the principle that "expensive is better," they've become a nation of bargain-hunters and yen-pinchers.

Consumer-advocacy groups are applauding, right? Not exactly. If anything, they seem to be distancing themselves from mainstream shoppers, saying product safety, rather than value, is paramount. Conversely, many ordinary Japanese have come to suspect that such groups are more sympathetic to producers than to rank-and-file consumers.

On paper, the consumer movement sounds like a formidable force. The National Liaison Committee of Consumers Organisations, or *Shodanren*, includes 14 groups and a total membership of nearly 20 million. The co-operative movement — whose stores generate ¥3 trillion (US\$29 billion) in sales annually and outnumber those of the nation's largest private super-

market chain, Daiei — is a major force in the retail sector.

But Reiko Nagase, a Tokyo housewife whose husband works for a major electrical manufacturer, sees belonging to a consumer organisation as something of a luxury. "I welcome price drops due to imports," she says. "I guess only those who can afford [expensive organic food] are in the consumer groups."

Indeed, organisations like the *Shufuren*, or Japan Housewives' Association, often sound more like producer lobbies. Kii Nakamura, the *Shufuren* president, says Japan should not open its rice market, because foreign rice may be contaminated by chemicals and the country needs to preserve self-sufficiency in basic foods.

"We're often accused of working hand in glove with farmers," says Nakamura. The fact that imported rice could cost far less than domestic varieties is not important to Nakamura.

Naokazu Takeuchi, founder of the Consumers Union of Japan and now counsellor to the organisation, agrees that food self-sufficiency should come before low prices. Takeuchi was sacked from the Ministry of Agriculture in the late 1960s for organising demonstrations against an increase in the price of milk. Today, he and the union chairman, Yoko Tomiyama, consider price a secondary issue.

Not that these groups don't stand up for the consumer. Takeuchi's 6,000-member group has been active in outlawing harmful food additives and lobbying for a product-liability law (endorsed by the cabinet of outgoing Prime Minister Morihiro Hosokawa in late April). When it comes to food, however, Takeuchi is a convinced protectionist, though not for the usual reasons. "By importing foods, we are destroying the American and Asian environments," he says.

Consumer organisations are to some extent the victims of their own success: Japan's affluence has robbed them of the issues that compelled their founding.

"In the old days, we sometimes had to test products that broke after three days," recalls Shizuko Ohashi, founder and president of *Kurashi no Techo*, a bi-monthly magazine started after the war to test consumer products. "Now it's getting hard to decide how to edit the magazine. We're not dealing with necessity any longer — we have to decide what lifestyle is good for our readers, and that's not easy."

Shufuren, likewise, seems unable to decide where to focus its efforts, now that so many earlier problems have been solved. Founded in 1948, the group made its name campaigning for adequate supplies of matches. In the 1960s and

THE MOST IMPORTANT BUSINESS MEETING EVER ORGANIZED IN CHINA.

The 1994 China Summit Meeting has been convened by the International Herald Tribune (IHT) and the State Commission for Restructuring the Economic Systems (SCRES) and will be held in Beijing on May 11-12, 1994.

CONFIRMED CHINESE PARTICIPANTS TO DATE INCLUDE: Premier Li Peng, Vice Premier Li Lanqing, State Councillor and Minister of SCRES Li Tieying, Chairman of the State Commission for Economics and Trade Wang Zhongyu, Minister of Finance Liu Zhongli, Minister of Foreign Trade Wu Yi, Mayor of Shanghai Huang Ju, Chairman of China Securities Regulatory Committee Liu Hongru, Deputy Governor of the People's Bank of China Chen Yuan, and over 140 CEOs of P.R.C. state-owned enterprises.

CONFIRMED FOREIGN PARTICIPANTS TO DATE INCLUDE: Prime Minister Mahathir bin Mohamad of Malaysia, Director-General of GATT Peter Sutherland, Managing Director of the World Bank Ernest Stern, Former Chancellor of the Federal Republic of Germany Helmut Schmidt, President and CEO of ABB Asea Brown Boveri Ltd Percy Barnevik, President of Boeing Commercial Airplane Group Ronald Woodard, Chairman and CEO of Caltex Petroleum Corporation Patrick Ward, Chairman of Peregrine Investments Holdings Ltd Philip Tose.

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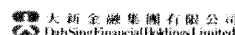


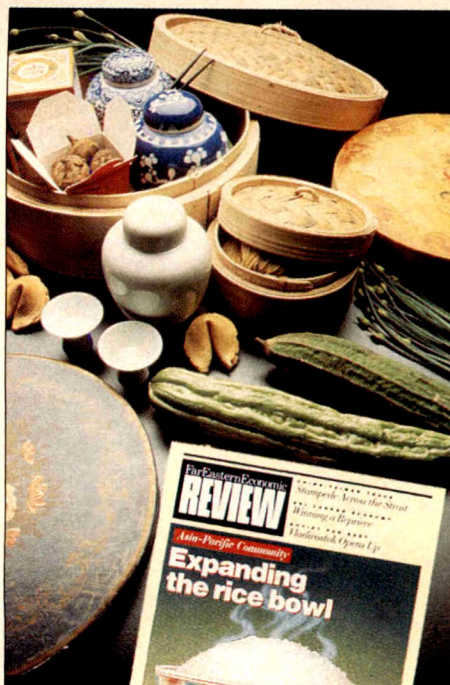
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1970s, the group focused on product-labeling and dangerous food additives. "We helped to stop food companies from showing cows on cans of whalemeat," says Nakamura."

Shufuren also managed to prohibit use of the word "juice" on synthetic-drink products. "It's because of us that Fanta bottles in Japan carry the words 'not pure juice'," says Nakamura.

But some critics feel the efforts of consumer organisations to achieve food purity eventually went too far. During the U.S.-Japan "lemon war" in the late 1970s and early 1980s, they popularised the idea that foreign food was dangerous.

Food safety became a hot issue again in the autumn of 1993, when the government announced that Japan would import rice for the first time in a decade because of a disastrous domestic harvest. By year's end most supermarkets were offering blended foreign and domestic rice, but some co-ops refused to sell foreign rice. Instead they encouraged members to eat noodles and bread — preferably made of domestic wheat.

Other consumer groups offer "specially cultivated domestic rice" purchased directly from farmers who don't use chemical fertilisers or insecticides. Though its price is two or three times that of imported rice, consumer groups don't seem to mind. "We don't think that the cheaper the better. We want 'reasonable' prices," says

Tomiyaama.

Consumer organisations face another identity problem in affluent Japan: many people don't like the word "consumer" at all. "The word 'consumer' [*shohisha*] has a negative connotation, reminding me of the mass-production era," says Koji Nakano, a novelist and social critic who wrote a 1993 best-seller advocating a return to the "simple life."

The preferred buzzword is the ambiguous *seikatsu-sha* (literally "lifestyle person"). Analysts say the term, popularised by Hosokawa, can mean either producer or consumer. ■



Takeuchi: prices are secondary.

Not in Service

By Jonathan Friedland in Tokyo

Japanese consumers are finally getting breaks on merchandise ranging from air conditioners to hair conditioner, but for the most part they aren't yet seeing the benefits of "price destruction" on the cost of services.

Nor are they likely to: the Japanese labour market generally remains tight, despite cutbacks in new hires and an acceleration in early retirements that pushed the unemployment rate above 2.7% last year. Moreover, various government ministries — which still regulate prices of everything from taxi fares to X-ray exams — are by no means convinced that competition is a good thing.

As in most industrial countries, the prices of private services in Japan — whether school fees, dry-cleaning or legal work — have climbed gradually but inexorably in recent years. "Final goods prices are falling as never before," points

out Jim Vestal, Tokyo economist of Barclays de Zoete Wedd. "But school fees and doctor bills are going up as usual." Vestal expects service prices to rise 1.3-1.5% in 1994, less than last year's 2% but still a sharp contrast to merchandise prices, which in aggregate could decline 2% this year.

Most controversially, public-service fees are also going up. In recent weeks, Japanese consumers have been asked to pay more for transport, water, telephone calls, electricity, postal services and public housing. Some increases are quite steep. They are aimed both at helping the government meet its long-term goal of reducing dependency on direct income taxation, and to counter the overall decline in tax revenues experienced since 1991.

Economists worry that for many low-to-mid-income families, these fee increases, plus premium hikes by the government-run national pension system,

Cheers

Discounters invade Japan's liquor market



Shigeru Iwatsuki's future looked doubtful in 1991, when a friend whose debts he'd agreed to underwrite went bankrupt while running a small liquor-retailing business. Caught holding the liquor dealer's debts, there seemed only one thing to do — set up shop on his own, using the licence that was the failed company's sole remaining asset.

Three years later, Iwatsuki realises how lucky he was. His Garçon liquor store, in the sleepy suburb of Fuchu, 90 minutes west of central Tokyo, turns over ¥1 billion (US\$10 million) a year, with three full-time employees and a small staff of part-timers. In revenue terms, Garçon is at least 20 times the size of the typical mom-and-pop store in the area, most of which have been struggling for decades to make ends meet.

Iwatsuki's store is one of 1,000 or so discounters that have broken into the heavily protected liquor business during the past three years, partly as a result of foreign pressure to liberalise Japan's retail sector. In July 1990, after the nation's four big

brewers announced simultaneous and identical retail price increases, the Fair Trade Commission launched an investigation into suspected price collusion. The enquiry ended four months later, when the beer companies published advertisements proclaiming (for the first time in the industry's history) that retailers were free to set their own beer prices.

The announcement changed the rules of the game, says Iwatsuki. Before 1990, selling discount beer was a distinctly risky business: dealers would be denied access to bank credit, and competitors organised various forms of harassment — including threatening phone calls and, in at least one case, attempted arson.

Today, it's a question of how fast entre-

preneurs can climb onto the discount bandwagon. Discount stores, which as a sector barely existed three years ago, now account for an estimated 10% of Japan's ¥4.3 trillion liquor market, and for more than 20% in Hokkaido, where retailing is less hindered by traditional taboos and prejudices.

In three to four years, discounters, supermarkets and convenience stores are likely to hold more than 30% of the national liquor market, says Mark Bedingham, a Tokyo-based analyst with Jardine Fleming. He says that should leave 30% for bars and restaurants and 40% for the 130,000 small stores making up the rest of the retail-liquor industry.

For consumers, once resigned to drinking the world's most expensive beer, the discount revolution has hit like a *kamikaze*, or divine wind. A standard 350cc can of local brew at Garçon costs ¥175 — still high by international standards but ¥35 less than the manufacturer's suggested price. Imported beer costs less, as little as ¥160 a can, and imported whisky carries the heaviest discounts of all. Iwatsuki's prize exhibit, Royal Salute scotch whisky in a special ceramic flask, retails for ¥8,500. In an upmarket department store, he assures customers, it would cost ¥40,000.

Discounters aren't making even faster inroads, says Smith Barney Shearson analyst David Jensen, because the National Tax

will at least partly negate the positive impact of a one-time, ¥6 trillion (US\$58 billion) cut in income taxes adopted by the Hosokawa government in February and scheduled to take effect in June. The fee hikes alone are equivalent to an additional ¥600 billion tax burden over the course of a year, according to the research unit of Sumitomo Life Insurance.

There are, however, three areas where services are clearly becoming cheaper. The first is urban rents, which have dropped by 20-30% from their 1991 peak. Few consumers have actually benefited, though. Many Japanese who don't own their homes rent on a long-term basis. In addition, prices have dropped the most in up-scale areas like Tokyo's Aoyama and Azabu districts, offering little solace to rank-and-file renters.

The second is in certain areas where the government has no say in pricing. Cram schools, or *juku*, are a good example. Having expanded rapidly during the 1980s, they've been forced to cut prices to compete against one another as household purse strings tighten in response to the recession. Family restaurant prices can also be counted in this category: chains like Skylark and Yoshinoya offer package



Discount beer: no longer a risky business.

deals giving urban families more value for their money.

A third area is those handful of services, like international air transport, which face direct price competition from abroad. A handful of discounters, including HIS Travel and MAP Travel, have over the last four years driven down the price of Tokyo-issued international tickets to levels available in Hong Kong and other unregulated Asian centres. They've done so by buying group tickets in bulk and stripping out the hotel and ground transport portion.

Air fares, as much as any other area, reveal the government's attitude towards discounting: it contends that lower price

those offered by companies like HIS.

Hideyuki Kaneko, a ministry official, says the new structure gives Japanese consumers a "greater range of approved tickets, ones you can trust securely." Discounters, though, see the move in part as a pretext by which the ministry can assert its authority over a pricing structure that has evolved beyond its control.

"The financial condition of the Japanese airlines is deteriorating sharply," says Masao Okayama, president of Tomato Travel in Tokyo, "so they'd like to end discounting. But they don't really have any choice, because in this area you can't stop capitalist pricing from working."

Administration doesn't want them to. Beer taxes generate ¥1.5 trillion in revenues annually, the most for any single product. To keep the money flowing in, the agency wants stability in the beer industry. That means propping up a distribution network prepared to keep prices high.

The Tax Administration has various ways of doing this. Its most powerful tool is a licensing system that limits the number of retailers in any area by reference to population. In most localities, new entrants must buy a licence from an existing retailer. Once in business, he is constrained by rigid guidelines regarding whether he can move shop or increase floor space. The rules lack any legal foundation, but ignoring them can bring a tax audit.

Small stores doing business the old-fashioned way needn't worry about taxes: theirs are often prepared by the local liquor dealer's association, which is on good terms with the Tax Administration. Liquor retailers are required by law to join their local association, says Shingo Hirai, chief of corporate communications at Asahi Beer.

But discounters can find themselves being pointedly ignored by other members of their association. "It's something like *nakamahazure*," says Iwatsuki, using a term that describes an ostracised school child.

Discounters face another problem: finding wholesalers willing to offer beer at a discount in return for bulk orders and payment on delivery. Yukio Higuchi, founder and president of the Kawachiya discount chain, says he had to drive his own car to the wholesaler's warehouse when he started business 10 years ago, to avoid having the local retailers association track Kawachiya's vans back to his stores.

Even today, discounters often buy from wholesalers outside their own area "to avoid embarrassment," says Asahi's Hirai. And the wholesaler doesn't let regular customers know that he's giving discounts.

Discounters normally buy from "secondary" wholesalers positioned well down the complex distribution chain, says Higuchi. That's because big wholesalers who deal directly with brewers don't want to risk a boycott. The boycott threat comes not from brewers, who seem resigned to discounting, but from secondary and tertiary wholesalers, who want to appear as standing up for the traditional system.

Takao Kondo, president of Budweiser Japan — the largest beer importer, with a 1% market share — says the next decade may bring flexibility to the liquor market. But the change will not be painless. The liquor trade has long been integral to Japan's informal social-welfare system, which protects the millions of small businesses that make up the retail sector. For the bureaucrats at the Tax Administration, it may be hard to accept that the real beneficiaries are supposed to be consumers.

■ Charles Smith

INVESTMENT

After a Fall

Two analysts expect a rally in Malaysian shares

It's been an unsettling year for Malaysian stockmarket investors. Kuala Lumpur's Composite Index streaked to a record 1,332.04 in January on an avalanche of cash from United States fund managers. Then came a startling 25% reversal as official efforts to curb speculation sparked steeper-than-expected falls in most counters. What's more, Malaysia's currency continued to drop.

Investors have been treading cautiously ever since. But the market is regaining some of its momentum. The Composite Index is now hovering around 1,000 after skidding as low as 920.28 in early April. Analysts say the market could rally still further this year.

That's the assessment of top Malaysian securities analysts **Yeoh Keat Seng** and **Choong Khuat Hock**. Yeoh is the senior investment analyst for Crosby Research's Kuala Lumpur representative office, while Choong is the managing director of Barclays de Zoete Wedd in Malaysia. They spoke with REVIEW correspondent **Doug Tsuruoka**.

Is the downside in the market limited?

Yeoh: Yes, I'd say it is limited to the extent that it is anything from a 15-20% decline. But part of that could be offset by expectations of a currency gain. We are looking at a currency gain of about 5% for the rest of the year.

Choong: The market has come off by



around 30%. Looking at the strong earnings reported by corporations and the still relatively strong economy, I would say that the downside is very limited. I put the downside at 850-900 on the Composite Index.

I don't see the market falling below that. At 900 on the index, the market will be trading at a price-earnings (P/E) ratio of about 20. That is not expensive in relation to its his-

torical trading range of 17-26.

Billions of dollars from American fund managers poured into the market in late 1993. Where is this money now?

Yeoh: Some of it fizzled out in the last market correction, and some was taken back. But I think a large chunk of it remains here. What has happened is that there has been a structural change in how people perceive the Malaysian market.

Over the last year, a lot of investors from the U.S. and other markets have come to realise that the Malaysian market is creative, has a lot of growth and has much more liquidity than two to three years ago. . . . All this is a positive sign that the Malaysian market is in a much more mature stage of its development.

Choong: I think a lot of U.S. money is still in the market. We are not too concerned because we think that in the long term, we'll see more U.S. funds coming into Southeast Asia — including Malaysia.

Last year, U.S., European and Southeast Asian markets did very well. And because of that, there was a lot of interest in the local stockmarket. A lot of U.S. investors poured billions of dollars into mutual funds. But earlier this year, because of a rise in U.S. interest rates, there were some jitters — and some redemptions as well.

The U.S. money will eventually come back. Only a small proportion of the potential fund money in America is invested outside the country, and Southeast Asia is a region of high growth potential.

What will be the effect of a possible general election in Malaysia this year?

Yeoh: On sentiment, I think the expectation of an election will really push the market a lot higher. On the fundamentals side, I don't think things will be all that fantastic. There is some expectation of projects being given out and awarded. But because of the base of the market now — we are



Choong of Barclays de Zoete Wedd.

"I put the downside at 850-900 on the Composite Index. I don't see the market falling below that"

close to US\$180 billion in capitalisation — the effect will not be that substantial.

Choong: Assuming that all else remains equal, a general election is normally quite positive for the market. First, there is usually a lot of good news by the government ahead of a general election. Second, there will be promises of larger development expenditure by the government. Third, it's very expensive to run a general election and there will be certain [political] parties that are very eager to raise money [through the market]. . . Even if that is not true there will be speculation that that is the case.

Does this mean an election-year rally?

Yeoh: Yes, I think there will be one, although I think it will be nothing like 1993. The present indications are the elections will be some time in August.

Choong: If we don't have any sharp external shocks, I think we could have an election rally. The market has corrected by close to 30% from the peak in January, so the market could rally.

In 1986, we had a rally before and after the election. In 1990, we didn't have an election rally because we had the Kuwait crisis.

How will weak sentiment on the international and regional bourses affect trading on the Kuala Lumpur exchange?

Yeoh: I think market sentiment will be weak because there was excess liquidity and speculative buying in our last quarter. But we think the bulk of it has already been reflected in the pricing. The correction has really eroded much of the expectations and the liquidity.

We are looking for better things to come from the regional markets. But even if sentiment improves, we don't think the Malaysian market will be the top-performing one in the region this year.

Choong: I think it will have some impact because world markets have become more internationalised. Whatever happens in America happens in Southeast Asia. Also, if the Hong Kong market is weak, it would also affect Malaysia because a lot of international fund managers see Southeast Asian markets as a bloc.

If the Hong Kong market goes down a lot and the Malaysian market goes up, there could be some switching in the sense that fund managers might try to sell Malaysia and buy Hong Kong. So in that sense, the markets will be linked.

What stocks do you like now?

Yeoh: Stocks that are cheap. Probably stocks with P/Es in the mid-to-high teens because they offer a better buffer for any correction or any de-rating in the market.

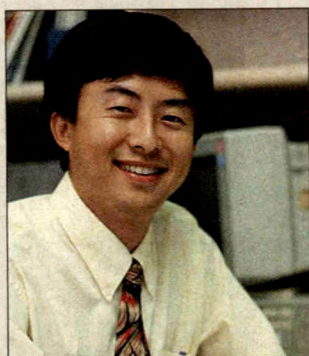
Second, I look for stocks that have

strong growth even though they may appear a bit on the pricey side this year. And third, I'll be looking for blue chips, which have value at these levels.

The stocks we have in mind include national telecommunications provider **Telekom Malaysia**; **Resorts World**, the operator of Malaysia's Genting Highlands Resort; **Affin Holdings**, the Arab-Malaysian financial group, banking and infrastructure play; and **Gamuda**, a local construction company.

I'd be looking for sectors that will be strong for the next three or four years. We are a bit concerned about inflation over the medium to longer term. Sectors such as construction, telecommunications and building materials will more or less have forward momentum regardless of what happens to our economy over the next three or four years.

Choong: My foremost selection would



Yeoh of Crosby Research.

I think there'll be [an election-year rally], although I think it will be nothing like 1993

be the banking sector, the infrastructure sector and the consumer sector. Within the banking sector, my favourite stock is **Development & Commercial Bank** because it has got one of the highest loan growths among commercial banks and the lowest cost of funds as well — mainly because of the efficiency of the bank.

For the infrastructure sector, I like stocks such as **Westmont**, an offshore oil-fabrication and shipbuilding specialist; **YTL**, the property, tourism and power-generation group; and **Technology Resources Industries (TRI)**, Malaysia's major cellular phone and fibre-optics provider. **Westmont**, **YTL** and **TRI** were 'concept stocks' in 1993 but they have delivered in terms of earnings. The growth potential of these stocks is strong.

Westmont provides the best exposure to the oil and gas industry. It is also going into infrastructure development and power generation. In the case of **YTL**, it will be the first independent power producer to successfully negotiate a contract with both **Tenaga** and the state oil company, **Petronas**. **YTL's** power plant should also be operational by the end of this year.

TRI has been very successful at expand-

ing into fibre-based communications. It has the second international gateway [licence to operate a long-distance service] and there is also growth in its subscriber base. We also like **Eon**, the national car distributor, and **Tenaga**.

What stocks do you recommend selling?

Yeoh: Stocks with high P/Es, or secondliners or those with concepts and expectations that could have fizzled out by now.

Stocks that we are thinking of downgrading or underrating include things like **Tenaga**, **Cycle & Carriage Bintang**, **Tanjong** and **Malaysia Airlines System (Mas)**.

Choong: I think that some plantation stocks are still a bit overvalued in that a lot of analysts have valued the land owned by the plantation companies . . . Even if just a small proportion of the land is developed, it will cause a glut in the property market.

So we don't think that such valuation is justified.

We are also uncertain if **Mas** can be profitable because of high operating costs and competition in the airline business.

Are Malaysian P/Es more reasonable now given February's sharp correction in share prices?

Yeoh: Yes, I feel they are more reasonable, although they appear to be a bit pricey. I look at it this way: Malaysia's present P/E ratio is around 22. Over the past five years the market has traded in a range of 16-30. I would say it's not too expensive. Neither is

it too cheap.

Choong: It's certainly more reasonable now. After such a strong correction, the P/E is not expensive.

Is the market becoming more fundamentals-oriented, rather than politically driven?

Yeoh: Yes, I think so. The market is much bigger in size. There's more depth and more breadth. There's comparatively less impact on the market from politically driven themes compared to one or two years ago.

Choong: Yes and no. In Malaysia, you have two separate markets in one. First, you have the blue-chip market, which on the whole is fundamentally driven in the sense that people look at the P/E ratio and growth potential. Second, you have the speculative shares, which are basically rumour-driven and hard to analyse from a P/E point of view. The P/E would run in the 100s.

But the two markets are linked by sentiment. If sentiments are too intense, then both speculative and blue-chip shares will go up. But speculative shares would have a higher pitch in the sense that they are more volatile.

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Room at the Bottom

Ajit Singh Ludher is a gambler of sorts. After working for a mid-sized advertising firm, he struck out on his own in 1993, founding Ludher Exora Enterprise, a small firm that offers cut-rate advertising services. But with the economy booming and his old firm doing reasonably well, why take on the headaches of starting a new one?

"I'm trying to create a niche," says Ajit. "Small to mid-sized companies can't pay the copywriting fees charged by big Kuala Lumpur ad companies any more." Though Malaysia's economy is booming, there are plenty of penny-pinching, smaller companies out there, and Ajit knows it. "I charge only a few hundred ringgit for a corporate profile," he says, "whereas the big guys charge thousands."

The central bank reckons GDP grew 8.5% last year and will expand by at least 8.4% in 1994. Manufacturing, construction and services all expanded in 1993, growing 13%, 11.5% and 9.2%, respectively.

But these bullish figures obscure some painful adjustments occurring in Malaysia's economy. One is the widening performance gap between big companies and small to mid-sized ones. Large companies are buying more goods and services, in line with their record profits, but this boosts prices and salaries, to the disadvantage of smaller companies not doing as well. "Small companies are hurting. It's a fact," says Ajit.

In advertising, the salaries paid to ordinary account executives have risen 20-30% in the last two years, industry sources say. The increases are moderating, but in the meantime, they've been passed on to clients in the form of higher fees. That boosts demand for the sort of cut-rate services Ajit provides.

So, ultimately, does labour demand from big companies, which drains an already tight labour market. Unemployment hovered at a historic low of 0.3% per million persons in 1993. Rising labour costs ripple across all sectors of the economy — especially in financial, retailing and other services. These don't register in official price statistics, however. The Consumer Price Index, which measures mainly food, energy and other essentials, rose only 3.6% in 1993, partly because of central-bank efforts to soak up excess liquidity.

Still, there is plenty of money around. M1 expanded 37.5% in 1993, and M2 23.6%, according to the central bank. More than a bit of this was cash churned up by the stockmarket boom. Whatever its

source, abundant liquidity has helped lower the cost of funds. Three-month interbank rates, for instance, are at 5.15%, down from 6.40% just five months ago.

Still, Ajit complains his customers sometimes have trouble meeting the 30-day deadline he sets for settling their bills. "I don't know why," he says. "Maybe they are using the cash for other things." One of those "things" may be the stockmarket, which has drawn countless first-time investors. Any of Ajit's clients who were caught over-extended by this year's sharp correction may indeed have trouble paying their debts.

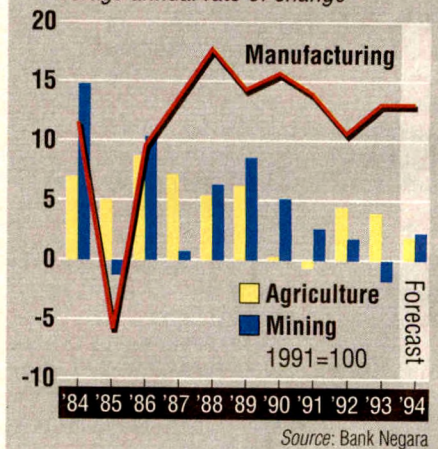
Malaysia's prodigious growth is creat-

Buoyant



Manufacturing continues to grow more strongly than other sectors

Average annual rate of change



ing other distortions. The deficit in services trade widened to M\$14.4 billion (US\$5.4 billion) in 1993 from M\$13 billion in 1992, the central bank reported. The current-account deficit widened to M\$5.4 billion from M\$4.2 billion. Merchandise trade, however, showed a M\$8.8 billion surplus in 1993, on exports of M\$118.2 billion and imports of M\$109.4 billion.

A softening currency has aided recent exports, but probably not for long. The ringgit closed at M\$2.69 to the U.S. dollar on April 21 after a period of instability which pushed it below M\$2.68 in early April. But most forecasters expect the currency to strengthen to M\$2.50 by December, as the economy expands. Reserves stood at M\$76.4 billion in April, up from M\$75.3 billion in December.

■ Doug Tsuruoka

PROPERTY

Look Out Below

Hong Kong real-estate prices start to soften

By Louise do Rosario in Hong Kong

Is Hong Kong's property bubble about to burst? Foreign businessmen like John Henderson of Pacific Rim Ventures hope so. A Canadian business consultant in Hong Kong since 1986, Henderson is due to sign new leases for his office and home in a couple of months.

If rents continue to soar, he will consider moving more of his operation to Canada. Since early this year, he already has shifted 10% of his business to Vancouver because "it's cheaper to fly someone in for a visit than to rent a desk in Central for a month." Central district, where bankers and brokers concentrate, has just earned the dubious reputation of having the world's most expensive commercial space.

But suddenly, Hong Kong may be getting a bit more competitive, due to recent interest-rate increases and the government's highly publicised commitment in March to bring down property prices. Since March, property prices have dropped

5-10% from their peak and transactions have plummeted a staggering month-on-month 60% in April.

Rents will cool off next, analysts say. "Yes, rents have gone up too quick and too high, but the market could adjust [to new conditions] very quickly too," admits Thomas Kwok, managing director of Sun Hung Kai Properties, one of the Hong Kong's biggest landlords.

Kwok and others expect rents of commercial space to rise more slowly than the double-digit growth of previous years, although few predict a fall. And there will be fewer horror stories of landlords asking for a doubling of rents within months. "One marked change is that landlords are more willing to negotiate; they are getting more bearish" about the situation, says Simon Yu, director of Kaiser Properties, a real-estate agent. In a softer market, notes Alan Dalgleish, research manager at the property consultancy First Pacific Davies, landlords may offer "redcoration, appliances and other incentives," as they did

when there was a glut of office space in 1989-90.

Supply is expected to ease somewhat, especially if speculators opt to rent rather than sell their property at a discount. "That would be very positive and would take some heat out of the market," says Chris Thrift, a director of Richard Ellis, a property consultancy.

One sector that may suffer more of a drop than others is luxury housing, whose main customers are senior expatriate employees. In Mid-Levels, one of Hong Kong's smartest residential areas, "you can see quite a bit of lights out at night," notes Thrift. Landlords there "have jerked up prices to unreasonable levels; rents could easily go down 30-50%," predicts Marc Faber, who runs a Hong Kong fund-management company.

A cooling of the market would be a timely relief to foreign companies tired of being squeezed. A few foreign firms, such as Unisys, have actually left Hong Kong for Singapore, while others are "assessing the situation," says Mark Michaelson, a vice-president of the American Chamber of Commerce. In Singapore, the colony's closest rival in efficiency and infrastructure, commercial space costs only one third of Hong Kong's, and housing one quarter, property analysts say.

Even the Japanese, used to sky-high

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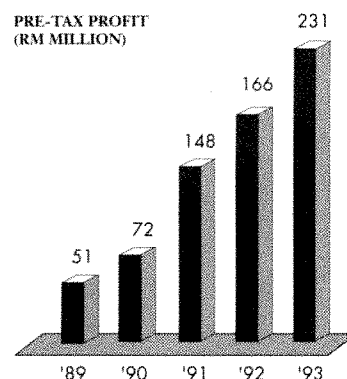
1993 Group Audited Results -Year Ended 31st December

	1993	Group RM Million	1992	Group RM Million	% Increase	Group
Profit Before Tax		231		166		+39
Total Assets		11,675		9,879		+18
Total Deposits		9,351.1		7,917.7		+18.1
Loans & Advances		7,667.0		6,772.4		+13.2
Shareholders' Funds		889		754		+18

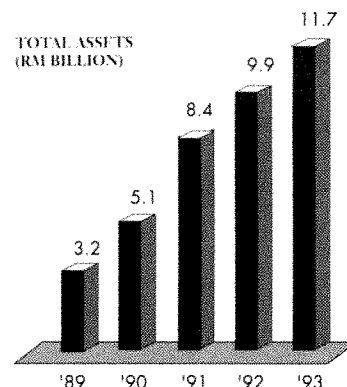
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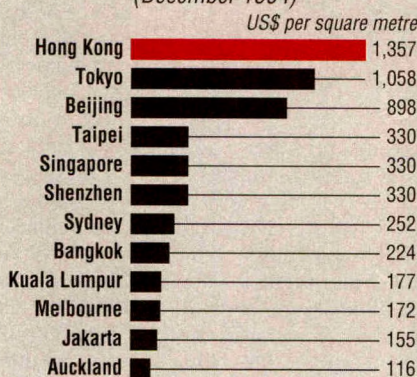
Sky Scraper

prices at home, have been squeezed out. At least 30 Japanese companies have moved back home in the last two years, say Akinari Kira, a director of Daiken, a leading property agent for the Japanese. Adds an American investment banker: "People will move all over the region, when communications are so easy and physical premises expensive. People are concerned about locking themselves into high costs."

Kira says those who stay on have "to look for cheaper places," such as remote areas like rural Tai Po, where a Japanese electrical firm has just set up office. Some companies are moving to industrial-use buildings in Kowloon Bay, Kwun Tong and other areas where factories were before they were relocated to China, says Dalgleish.

The latest property downturn is good news to foreign firms, but analysts warn it's too early to be sanguine. Rents remain high, and many firms still have to stay in small, inferior premises. In the first quarter

Forecasts of average annual office rents in central business districts (December 1994)



Source: Colliers Jardine



REVIEW GRAPHIC/FRANCO CHUNG PHOTO: SHING LING

Kuala Lumpur, HK\$15-20.

Rents in Hong Kong probably won't drop to levels like those of neighbouring Asian cities. Even Faber, known as Dr. Doom for his bearish views about Hong Kong, says commercial rents will "stay relatively high in the next 18 months... because occupancy remains high." In March, the vacancy rate of office space in the Central-Causeway Bay financial and retail belt was 1.7%, down from 1.9% a month earlier.

of this year — when it was already clear that the government would come down on the market — rents of office blocks along the prime Central-Admiralty corridor surged 25% from the previous quarter.

At the prestigious Exchange Square in Central, rents continued to rise after breaking the psychological barrier of HK\$100 (US\$13) per square foot in February. Last month, they hit HK\$105. In Singapore, the same-quality space costs the equivalent of HK\$30; in Bangkok and

Michael Mahony, a director at Jones Lang Wootton, says the supply of office space remains tight: new stock has been falling annually, to a forecast of 2.4 million square feet in 1995 from 4.98 million square feet in 1991. Beyond that, supply will catch up.

The biggest unknown, though, is demand. If Hong Kong's stockmarket continues to dive, investment bankers such as Goldman Sachs and Morgan Stanley would be less willing to pay the steep rents

The Big Squeeze

On paper, Hong Kong's residents are among the richest in the world, thanks to the expensive property they own. In reality, they have become worse off in what may be the colony's last property boom before China takes over in 1997. If the bubble bursts, analysts say, many will find themselves stuck with big mortgages and small flats in poor locations.

Five years ago, the average unit for a three- to four-member household measured 600-800 square feet; today, 400-600 square feet is the standard. The new homes are usually found in the New Territories, one or two hours by public transport from the Central business district on Hong Kong Island. Home buyers have few choices: in the past two years, over half of the 62,300 new units completed were located in the new towns.

Ann Wong, 38, carries a HK\$60,000 (US\$7,800) monthly mortgage on a HK\$8 million apartment in Shatin, a densely populated suburb.

Wong and her husband earn comfortable salaries as senior managers, but the mortgage is a heavy burden. "I can't afford to buy new clothes or eat out these days. Everything goes to supporting the flat," she says.

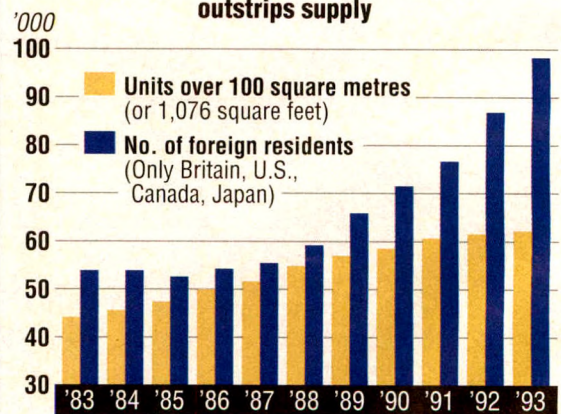
But the property game is profitable for many. Rich housewives, shop owners and other small-time speculators borrow heavily to buy half-finished flats. Many have made millions of dollars trading units numerous times while they were still being built.

The losers in this frantic property game are first-time buyers, earning a low fixed salary. A buyer of a 400- to 500-square-foot unit costing HK\$1.5-2 million needs at least HK\$400,000-700,000 cash for the downpayment — a big sum for a population whose median monthly wage is HK\$7,000. "Those who hold no property are effectively shut out of the market permanently," says Simon Yu, a director of real-estate agent Kaiser Properties. Even if the value of residential property skids 20-30%, as widely predicted, it would still be too expensive for many.

Hong Kong has gone through many property cycles in the past, but the latest has exceeded all expectations. The turn-

No Place to Live

Foreigners' demand for housing far outstrips supply



Source: First Pacific Davies

ing point was 1991, when Hong Kong finally shook off its post-Tiananmen pessimism and decided to make the best of a China boom.

"After an absence of six or seven years away from the real-estate market, [households] mobilised savings" once set aside for purchase of a home elsewhere, says Michael Green, a property specialist at S. G. Warburg Securities. With this flood of money, prices of small to medium-sized apartments rose a year-on-year 80-90% in 1991, after staying flat for

REVIEW GRAPHIC/FRANCO CHUNG

asked by Exchange Square and Citibank Tower. "With stockmarket turnover of HK\$3-4 billion a day, the larger brokerage firm is not going to make a lot of money" and may have to think more carefully about costs, says Thrift of Richard Ellis.

Another concern is China, whose overheated economy may be heading towards a hard landing. "People come to Hong Kong and they look to potential future profits" generated by the China market, notes Ian Perkin, chief economist of the Hong Kong Chamber of Commerce. If that does not materialise, some foreign firms could pull out or downgrade their operations very quickly — as they have in the past. If prospects turn sour, "it'd be harder to justify the large costs," adds Michaelson of the American Chamber.

Analysts say foreign firms are willing to pay exorbitant rents in Hong Kong because there is still money to be made. But if something goes terribly wrong with either the property or the China market, two major pillars of the local economy, rents will come down. So will profits. Even Pacific Rim Ventures' Henderson, a victim of high rents, admits that there "is a negative side" to a softer property market and that it's "a very delicate balance" between more affordable rents and reasonable business returns. ■

two years, says Yu. Since then, prices have defied gravity, with some prime residential blocks doubling their value within months.

Hongkong & Shanghai Banking Corp., the colony's largest bank, last year had to lower its mortgage ceiling to 70% from 90% of a property's value to stem speculation. "That was the point when we had to say 'no' to the market; the market is unhealthy and not sustainable," says Edwin Lau, assistant general manager in charge of mortgages. Other measures, such as earlier payment of stamp duty and a capital-gains tax for certain transactions, eased speculation, but prices kept rising.

Under pressure to do something, the government promises tough measures to cool the market. Cynics say its options are limited. So much of the economy is dependent on property that a crash is the last thing a departing colonial government wants.

Many like Robert Chan, a 35-year-old clerk, are betting on a political crisis as their last chance. "I'll buy a property when the People's Liberation Army marches into Hong Kong and causes prices to plunge," he says. But many others are also waiting for that to happen, so prices will never be too cheap.

■ Louise do Rosario

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PROPERTY

On a Wing and a Prayer

Macau builds on expected airport windfall

By Ed Paisley in Macau

From the top of the concrete skeleton that will become the control tower for Macau's new international airport, relentless construction work echoes across the colony. Multi-storey buildings are rising from the mud flats along the Praia Grande waterfront. Rusty barges pump sand into landfills that will create a new waterfront for the Portuguese enclave and connect its two outer islands with road and rail links to China's Guangdong province.

And that accounts for just half the noise. Condominiums and office buildings are going up all over the once-dormant colony known for its gambling parlours, hearty food and cheap wine. The government is also refurbishing Macau's warren of alleys and decaying colonial structures to entice more tourists.

But a key question looms behind the activity: who is going to buy or rent all this new residential and commercial property in the run-up to China's takeover of the colony in 1999?

"Look, the property market in Macau is a real mystery," concedes Jorge Carvalho Pereira, the financial manager for Nam Van Development Co., which is building the new, US\$1.4 billion Macau waterfront. "There is no fundamental explanation, no increase in population, no eager investors to justify the construction. But the fact is buildings are being built, prices are going up and people are buying."

The reason, say leading Macau business figures, is the hope that the colony's new international airport, scheduled to open in late 1995, will help transform the colony from a gambling haven into a business and tourist gateway to China. In other words, Macau wants to look more like Hong Kong, which now serves as a feeder to China — especially for residents of Taiwan, which has no direct travel links to China.

And it has at least one edge over the British colony: the transition to Chinese control is progressing peacefully. Portuguese and Chinese authorities are avoiding squabbles over democratic reforms and infrastructure funding that are plaguing Sino-British relations over Hong Kong. Among the Hong Kong projects is a new airport that is slated to be completed in 1997. Until then, Macau hopes to benefit from the overflow from Hong Kong's increasingly crowded Kai Tak airport. "Macau is important to China to show stability in the region," says Macau's government-planning director, Leonel Miranda.

The investment theme was bolstered in mid-April when Portuguese Prime Minister Anibal Cavaco Silva travelled to Beijing and acquired China's blessing for Macau's new Patacas 7.3 billion (US\$1 billion) airport to become a hub for flights into China. The Portuguese and Chinese are also planning a new regional airline — Air Macau — to fly to China and Taiwan. Further, says a senior Macau official, they have reached an "understanding" to allow Air Macau to negotiate directly with Taiwan for landing rights in the colony. The Civil Aviation Authority of China is expected to have a majority stake in the new carrier, with the remainder held by Portuguese airline, TAP, and Macau business interests.

The Taiwan play is critical, as Taiwanese are heavy investors in Guangdong, inveterate gamblers and eager to access the mainland from points other than rival Hong Kong. But for now, the Chinese are largely responsible for pushing up Macau property prices. China-based firms have already poured US\$5 billion into the colony, most of it during the last three years. The Macau Chinese Enterprises Association, a trade association representing

investors from China, estimates that Chinese firms control about half the colony's financial and property sectors.

The flow of money from China worries local bankers. "About two-and-a-half years ago, a lot of liquidity came into Macau from the [Pearl River] Delta region," says a leading banker. "No one at that time had any data or vision to see an oversupply problem. Self-defence mechanisms have broken down." More than 20,000 flats sit empty right now, notes one Portuguese businessman. Explains the banker: "Liquidity constraints should have blocked new mortgages, but cash from China paid for the construction."

But unlike in Hong Kong, China has more direct influence in Macau and therefore will try to ensure that the property market has a soft landing. Indeed, it already has intervened, say Macau Government officials. They claim that during the last quarter of 1993, China instructed the colony's local banks to slow their mortgage and property-development lending. The banks obliged and prices have risen only moderately in 1994.

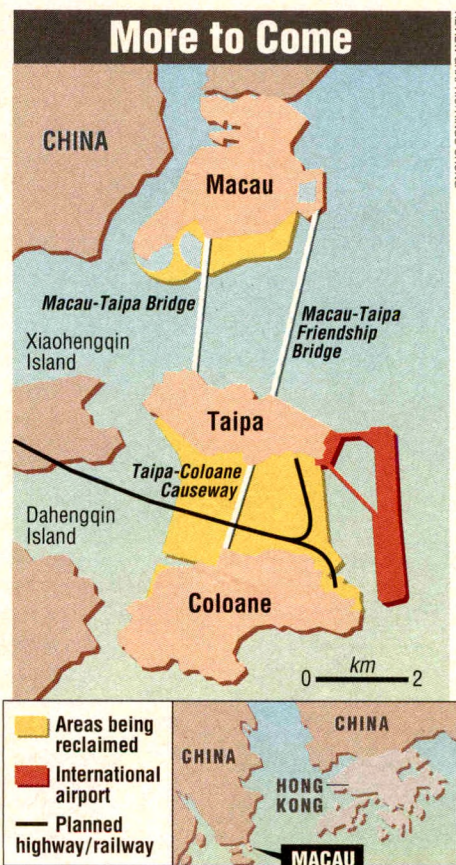
Local bankers, however, deny any direct Chinese interference. They contend that the number of new loans has dropped because Macau's tiny banking sector has about reached the limit of its lending capacity. They also concede that deposits from China are flowing back to the mainland because of the economic retrenchment there. "Some mortgages will have to be refused," says the banker.

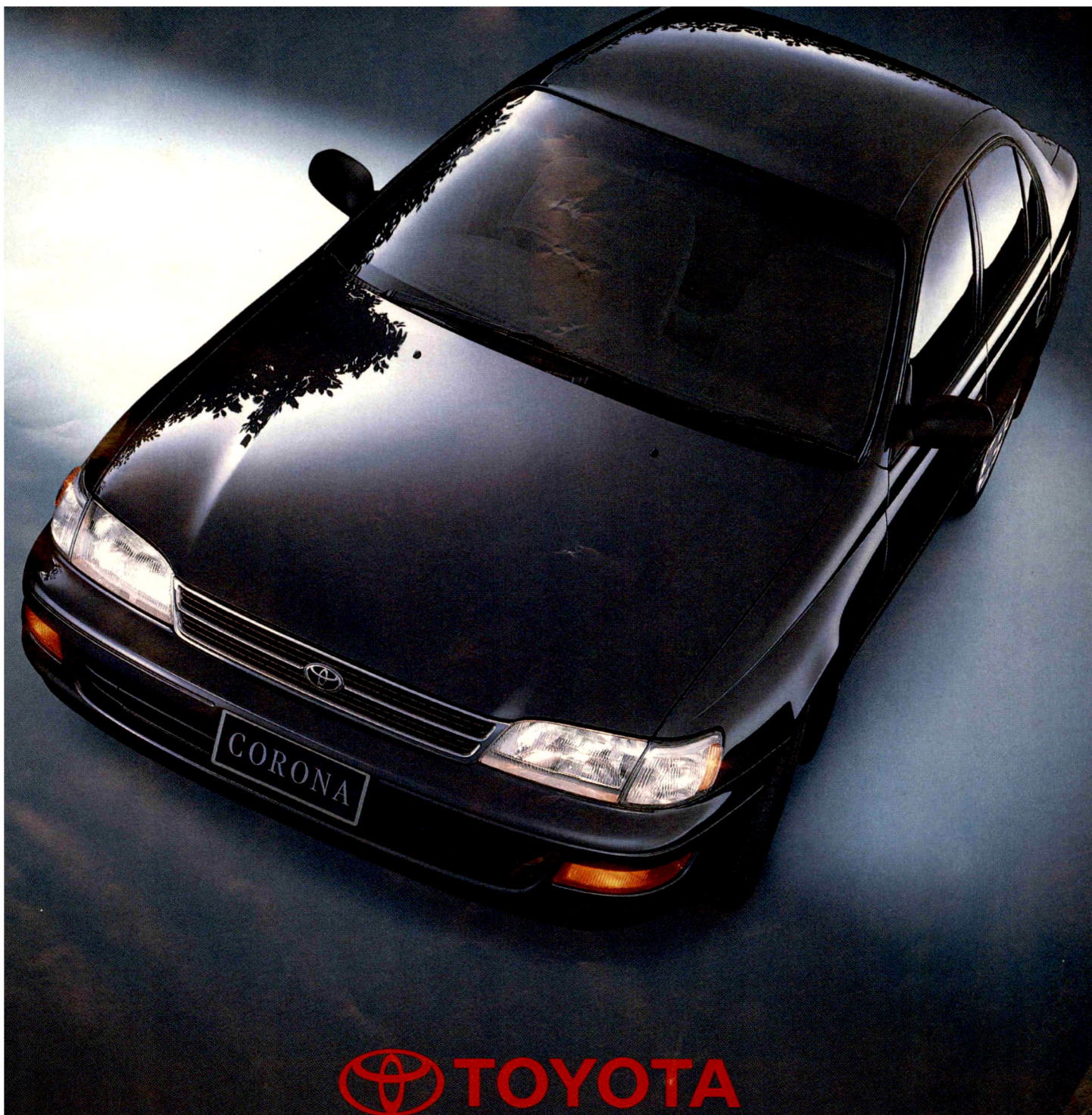
But there will still be a lot of new residential and commercial space to fill after projects already under way are completed. The Nam Van Lakes project alone will expand the Macau peninsula by 20% by late 1999, adding 15.2 million square feet of new residential and commercial space.

A landfill project between the outer islands of Taipa and Coloane will add another 4.5 square kilometres to the colony's current 18.7 square kilometres by 2000. Building plans for the reclaimed land include an industrial park, a superhighway and railway lines linking the airport and Macau to the nearby Zhuhai special economic zone and Guangzhou.

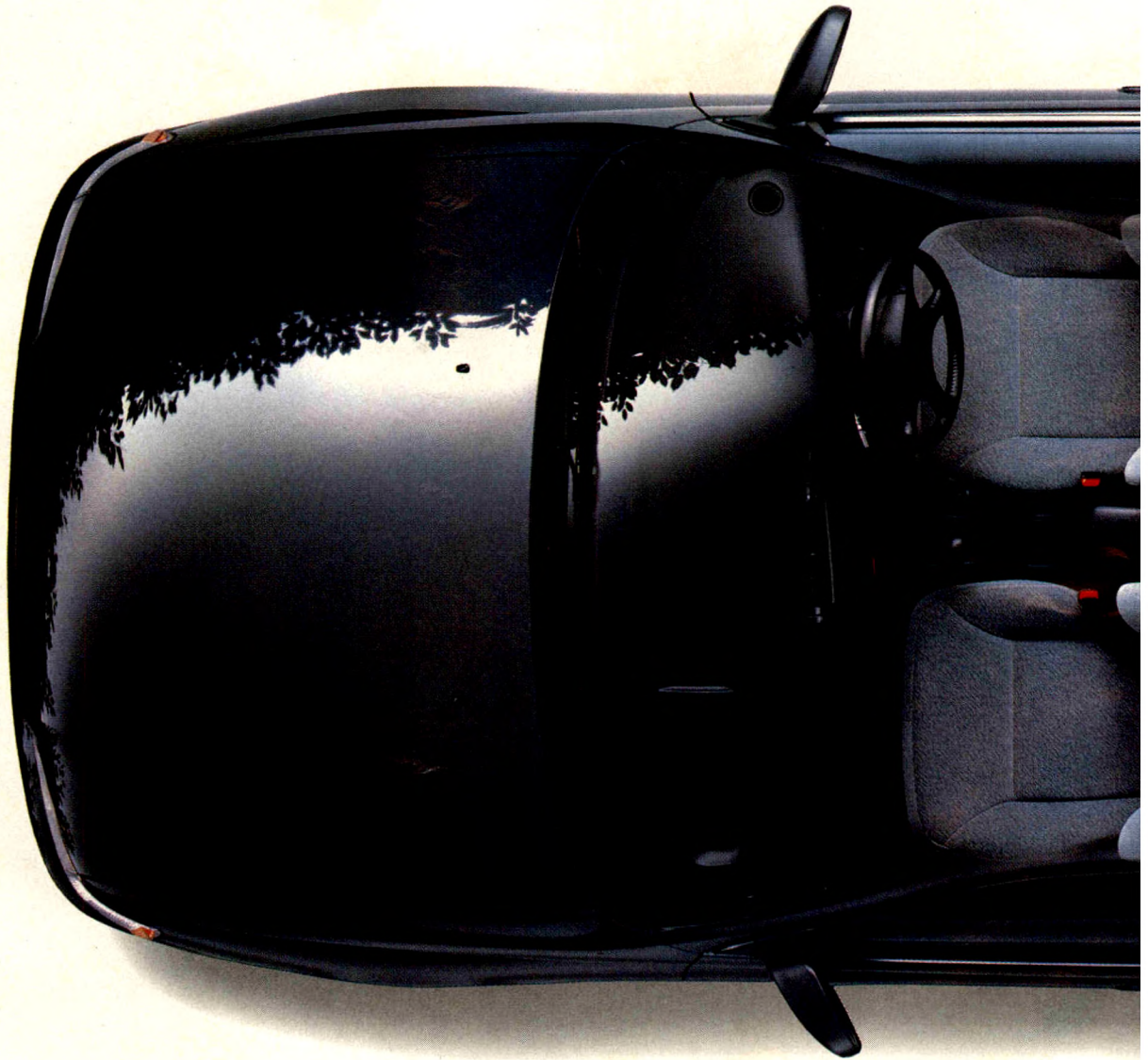
Financing all this development is not a problem. In addition to Chinese investment, Macau's lucrative gambling syndicate and the property boom are helping to fund development. With auctions for land exceeding the initial bid price by 5-30 times the asking price in 1993, total tax revenue from land sales is expected to hit Patacas 2.5 billion in 1994, or about equal the 1993 amount derived from land concessions.

"China will continue to build and sell, build and sell," says the banker. The combination could keep Macau's property market afloat, especially as uncertainty lingers over Hong Kong's own airport prospects.

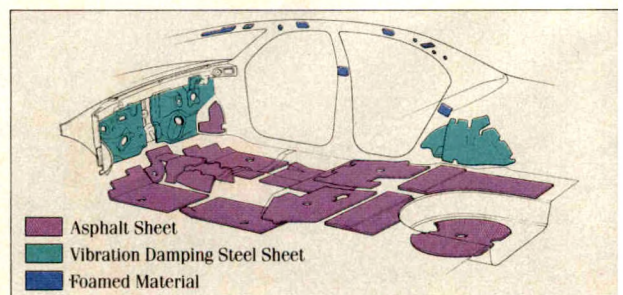




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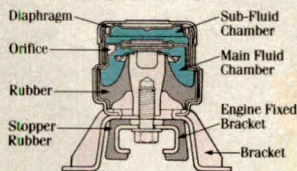
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YOUR MONEY MATTERS

Price and income of units can go down as well as up and past performance is no guarantee of future returns.

Try Harder

World Bank prods Dhaka to speed up reforms

By Shada Islam in Paris

When it comes to World Bank lending, there's always a catch. For Bangladesh, the conditions for a promised aid injection of US\$2.1 billion from the Bank and other donors are no small matter. Finance Minister Saifur Rahman has been warned that the new pledges hinge on Dhaka's ability to speed the pace of economic reform and the use of aid dollars.

The World Bank, which held its annual aid meeting in Paris on April 19-20, says it is committed to spending US\$450 million on development projects in the country for the fiscal year beginning July 1. The Asian Development Bank has promised about US\$400 million. Japan, with a pledge of US\$405 million, is making the largest bilateral aid donation.

Donors agreed that Bangladesh has made impressive strides in reducing its budget deficit to 5.4% of GDP from 7.7%, controlling inflation, and increasing food production. "But, much is left undone," the World Bank said after the two-day meeting.

Bangladesh is at a crossroads, say senior World Bank economists. They believe that the four-year-old economic- and fiscal-reform programme is beginning to produce results and that Prime Minister Khaleda Zia is on the right track with her emphasis on education, health and controlling population growth. As a result, says the Bank, "Bangladesh currently enjoys an unprecedented window of opportunity for achieving a dramatic breakthrough in the pace of pro-growth reforms."

The key goal now must be to move from stabilisation to growth, insist Dhaka's aid partners. In Paris, Rahman was pressed to take the "high road" of faster policy and institutional reforms that the Bank claims could trigger annual economic growth rates of 6-7% instead of the current 4.5%.

In order to achieve this, Bangladesh

must increase its investment level to 18-20% of GDP from the current 13%. "These are the kind of levels that are needed to make a meaningful attack on poverty," stresses World Bank economist Pradeep Mitra. Public investment must go to job-creating schemes, the Bank says. Wooing the private sector should be a priority, maintain Bank officials. Private investors, still sceptical of the government's pro-market policies, must be encouraged to increase their stake in the national economy, the donors say. Dhaka has been asked to make the reform process "irreversible" by accelerating efforts to liberalise trade, boost exports and reform the financial sector.

Mitra admits the requests are demanding. But, if Dhaka tries harder, it could become as successful as its East Asian neighbours, he says. "There is no reason to believe Bangladesh can't make it . . . but it will be difficult."

For one, prickly labour unions must be brought under control, say several donors. They told Finance Minister Rahman that the unions' penchant for frequent general strikes for political purposes was jeopardising Bangladesh's drive to court foreign investors. "An improvement of law and order would help attract more investment from overseas," the Bank stressed.

Bringing wages in line with productivity would also help, a Bank official added. Donors say that Dhaka is squandering its comparative advantage by allowing wages to rise.

Prime Minister Zia also is being pressed to speed the privatisation

of Bangladesh's numerous state-owned enterprises in the manufacturing, infrastructure and utilities sectors. Donors warn that the privileged position of the state-run giants is stifling local initiative and wasting scarce public resources. The collective losses of the state organisations in 1993 accounted for 27% of Bangladesh's annual development programme.

Dhaka says it is willing to try harder. Rahman told the REVIEW he shared the donors' worries and was willing to meet their demands, which he described as "reasonable." But, he added, "It will take time." The finance minister promised to speed the spending of foreign aid and to try to make the country's huge bureaucracy more efficient, dynamic and "mission-oriented." The accent is on building an "investment-friendly civil service" that will accelerate rather than delay work on projects, he said. ■



Khaleda Zia: on the right track.

Elephants' Graveyard

For China's state firms, more grim news

By Carl Goldstein in Hong Kong

The news could not have been worse for China's faltering effort to reform its lumbering state enterprises. Half of all state-owned firms lost money in the first three months of the year, compared with one third a year earlier, government statisticians reported.

Worsening conditions among the estimated 75,000 state enterprises came amid a flood of grim reports testifying to the decay of China's cradle-to-grave welfare state, centred round the work unit, that was once the pride of China's socialist system.

An investigation by the official Heilongjiang provincial labour union found that some 317,000 workers were owed Rmb 2.7 billion (US\$310 million) in back pay. Cited in labour activist Han Dongfang's *China Labour Bulletin*, the report said many of the workers in the northeastern province had not been paid for more than a year.

The semi-official Hong Kong China News Agency reported on April 22 that 700,000 workers in neighbouring Liaoning province had not been paid. Such problems are not confined to the northeastern rust-belt: Han's bulletin said more than 10,000 incidents of labour unrest — strikes, demonstrations and petitions to authorities — were reported to China's labour unions last year.

A year after economic supremo Zhi Rongji declared the so-called triangular debt problem "basically solved," inter-enterprise debt totals Rmb 47 billion, exceeding the previous high, Rmb 32 billion, hit in 1991. Socialist industrial role model Shougang Corp. needed an emergency cash infusion to pay its workers their February wages. This followed an emergency Rmb 500 million loan in November, after other enterprises failed to pay funds owed the Beijing-based steelmaker.

Inner Mongolia's Communist Party Secretary Wang Qun told delegates at March's session of the National People's Congress (NPC) that "ugly incidents" had occurred among enterprises, some firms having their coal and electricity supplies suspended for nonpayment of bills.

Such woes help explain why Beijing is backing off from the goal, proclaimed with great fanfare at the Communist Party ple-

num in November, of corporatising and privatising many — if not most — state-owned firms. Maintaining (or restoring) social stability has become more urgent than rapid structural reform.

That's apparently why Premier Li Peng, in his work report at the March NPC session, made no reference to the reform platform passed by the party conference. Instead, he promised the government would provide special funds to large and medium-scale state enterprises to help them get over their "temporary" difficulties.

"The Communist Party has always considered the state sector the foundation of its political power," says Xiao Geng, an economics lecturer at the University of Hong Kong. The result is intense political pressure to do something about state-enterprise woes. Xiao says, however, that one of the greatest dangers facing the Chinese economy is the possibility that the government, trying to prop up the state sector, will throttle collective and private enterprises.

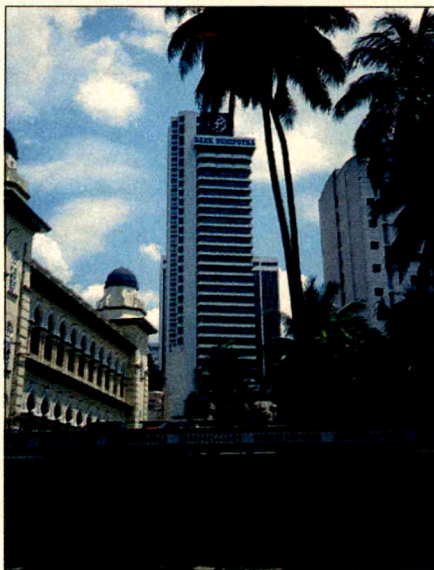
The government's latest economic report brought into stark focus the extent to which the non-state sector has become the engine of China's economy. It said the output of state firms was up a year-on-year 2% in the first quarter, while that of collective (usually owned by counties or townships) and private firms surged 32% and 79%, respectively.

One sign of government caution in approaching the problem of industrial reform came when a senior official said that the so-called modern enterprise system should be "mainly operating" by 2000. He Guanghui, vice-minister of the State Commission for Reforming the Economic Structure, cited the need to preserve state assets as one reason for the careful approach. Another state agency, the State Asset Management Bureau, earlier admitted that some Rmb 500 billion in state assets had been channelled improperly into private hands during the last three years.

Beijing faces a dilemma: almost any attempt to help state enterprises will only feed inflation, which in the first quarter of this year was running at 20% nationwide (far exceeding the central government's target of 10% or less) and 25% in the 35 largest cities. And those are official figures, which most analysts agree understate the real situation.

The government is split over how to handle the problem. Ministries overseeing various industrial sectors are pressing the People's Bank of China to loosen credit, says an economist with a multilateral agency in Beijing. Those in charge of macro-economic policies, on the other hand, want to limit lending. The result comes close to the worst of both worlds: not enough bank credit for state enterprises to resolve their debts and pay their workers, but just enough selective rescue missions to keep inflation on the boil. ■

POLICIES



Privatisation target.

Who Gets What

Politics-as-usual drives Malaysian privatisations

By Doug Tsuruoka in Kuala Lumpur

Malaysians have been hearing for years now that the government plans to privatise Bank Bumiputra, the country's second-largest commercial bank, and Keretapi Tanah Melayu (KTM), the national railway. One thing they probably haven't counted on though: what if both concerns end up in the same hands?

Datuk Samsudin Abu Hassan, chairman of Landmarks, a listed Malaysian hotel and property developer, is bidding to take over Bank Bumiputra. Landmarks is also involved in a plan with two other Malaysian companies to win control of KTM. Sources close to discussions between the government and Samsudin say that the fate of both proposals is still in doubt, but that they have managed to annoy Deputy Prime Minister Datuk Seri Anwar Ibrahim, who is also finance minister. While few details of Samsudin's bids are available, one thing is already clear: privatisations in Malaysia are highly politicised affairs, and these will be no different.

Samsudin initiated talks with Bank Bumiputra early this year, as an individual investor, not through Landmarks. Finance Ministry officials are angered that he did not first obtain central-bank clearance, an oversight that conflicts with the country's

banking law. (The Banking and Financial Institutions Act requires any party seeking to acquire 20% or more of a financial institution first to get central-bank permission.)

Sources close to Anwar say he is considering other, unidentified companies interested in Bank Bumiputra, whose troubled financial history makes it a sensitive subject with the government. The bank lost more than M\$2 billion (US\$740 million) in the so-called Carrian scandal of the 1980s.

Landmarks also has its eye on KTM, which it hopes to acquire in partnership with Renong (once a ruling-party conglomerate) and Renong subsidiary Time Engineering. There's a problem, however: Landmarks is likely to face a rival bid by Malaysian Resources Corp. (MRCB), a fast-rising media, property and power group controlled by political supporters of Anwar.

That bid, sources say, will also have the support of Tan Sri C. Selvarajah, KTM's long-serving executive chairman. Analysts familiar with the plan, which is still being prepared, say Selvarajah would prefer privatising through a partial management buyout, something the MRCB proposal will include. Neither Samsudin nor Selvarajah could be reached for comment.

It's too early to say which bid for KTM will get the inside lane, but both sides clearly plan to muster as much political support as they can. KTM, together with the government's separate Railway Assets Corp., controls at least M\$2 billion in right-of-ways that could be put to lucrative commercial use. The only potential problem is that state governments lay claim to some properties.

If anything, says a transport consultant in Kuala Lumpur, the presence of two rival bidders will probably accelerate KTM's privatisation, originally set for 1997, though this wouldn't necessarily preclude its eventual listing on the Kuala Lumpur exchange.

Samsudin would appear to be well-placed to bid for either concern. Once a top official of Peremba — at the time a state-controlled property company — and the Cold Storage retail group, he is an old business protege of former Finance Minister Tun Daim Zainuddin, who announced three years ago that Bank Bumiputra would be privatised.

But the connection with Daim may be working against Samsudin. The relationship may well displease Anwar, who is now feuding with Daim, his immediate predecessor as finance minister, in a rivalry unrelated to the coming privatisations. Daim and Anwar recently have criticised each before the press and to Prime Minister Datuk Seri Mahathir Mohamad. How quickly things change: only last November, Daim strongly backed Anwar for the deputy premiership. ■

BUSINESS BRIEFING

HONG KONG

Murdoch Sells Out

Media magnate Rupert Murdoch sold his remaining 15.1% stake in the *South China Morning Post* to Malaysian businessman Tan Sri Khoo Kay Peng for M\$361.6 million (US\$134 million). Khoo, chairman of Malayan United Industries, is believed to be acting on behalf of Robert Kuok, another Malaysian businessman who in October bought 34.9% of the paper from Murdoch's News Corp.

INDIA

Mercedes from Pune

Germany's Mercedes-Benz and India's Tata Engineering & Locomotive (Telco) signed an agreement for a DM 250 million (US\$147 million) joint venture to make Mercedes cars and engines at the Telco plant in Pune, western India. Mercedes-Benz will hold 51% of the venture.



Bangkok Bank ups deposit rate.

THAILAND

Interest-Rate Rise

Bangkok Bank, Thailand's largest commercial bank, announced it will push up deposit rates by 0.25 percentage point to 5%, retroactive to April 11. Other banks are expected to follow suit. The move follows a decline in capital inflows, especially those intended for the stockmarket, during the first quarter of 1994.

PHILIPPINES

Oriental Power Shift

Tycoon John Gokongwei assumed control of Oriental Petroleum & Minerals at the firm's April 25 stockholders' meeting, taking four of the company's 11 board seats and assuming the roles of chairman and chief executive officer. Former chairman Robert Coyiuto was appointed president and chief operating officer.

TAIWAN

State Company Closing

The Ministry of Economic Affairs will close state-owned Taiwan Machinery Manufacturing, which is losing US\$6.8 million a month. The company has assets of roughly US\$750 million, but its debt nearly equals that amount. The lay-off of 2,400 employees will be the biggest by a state company since the mid-1980s.

VIETNAM

Mobil Back to Work

MJC Petroleum, a consortium including American oil firm Mobil, PetroVietnam and Russian exploration company Zarubezhneft, signed a production-sharing contract to explore and develop a block in the offshore Blue Dragon field. Mobil holds a 50% stake in the venture.

JAPAN

Bank Mergers

Three secondary regional banks in northern Honshu will merge in January as Japanese regulators move to streamline second-tier institutions in areas with a declining population and low economic activity. Tokuyo City Bank, Kita-Nippon Bank and Shokusan Bank will be consolidated into Heisei Bank, with deposits of ¥2.1 trillion (US\$20 billion).



Gokongwei takes charge.

The merger will be carried out via a stock swap. Elsewhere, Mitsubishi Bank, one of Japan's healthier city banks, will take control this year of the nation's smallest trust institution, Nippon Trust, local newspapers reported.

Fujitsu, Sun Get Closer

Fujitsu of Japan and Sun Microsystems of the United States said they would coordinate research and development efforts on future generations of Sparc microprocessors. The move, which will involve US\$500 million in spending over the next five years, is aimed at maintaining Sparc's technical lead over competing microprocessors developed by Intel and by a consortium including IBM, Apple and Motorola.

CHINA

Telecoms Investment

Toronto-based Northern Telecom said it will invest more than US\$130 million to make central switches and chips and to support research and development efforts in China during the next five years. The bulk of the money will go towards plants in Guangdong province and Shanghai.

Management Change

In a bid to attract overseas capital and technology, Beijing will allow foreigners to

manage independently light-industrial enterprises, especially those oriented towards exports. China expects to export US\$34.5 billion of light-industrial products this year, says the official *China Daily*.

Futures-Trade Ban

China will ban all trading of steel and sugar futures from October, says the *China Daily*. The State Securities Council has also advised the Coal Ministry to halt listings of coal futures on wholesale markets. The move is an attempt to bring order to chaotic securities markets and curb speculation in hard-pressed industrial inputs.

Petrochemical Profit

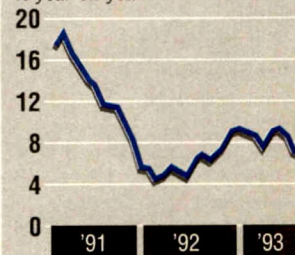
Hong Kong-listed Shanghai Petrochemical's net profit for 1993 rose 96% to Rmb 870 million (US\$100 million). The results for China's biggest oil refiner and petrochemical maker were better than company forecasts but below analysts' expectations. Revenues rose to Rmb 6.8 billion, up 46% from a year earlier. The improved performance stems largely from higher prices charged after the government relaxed price controls.

Indicators

Retail sales in Thailand



% year-on-year



Source: Smith New Court

PRICES & TRENDS

Commodities

	Latest sale to Apr. 25	Latest	Previous week	3 months ago	Year ago
Gold	London (2)	372.90	377.60	380.20	351.40
Copper	New York (3)				
Current delivery (May)		89.45	87.15	85.40	85.00
July delivery		89.50			
Aluminium	London (7)				
Current delivery (Apr.)		1,259.50	1,283.00	1,172.50	1,094.00
Tin	Kuala Lumpur (1)	14.19	14.32	13.33	14.16
Cotton	New York (3)				
Current delivery (May)		81.09	80.93	72.48	60.84
July delivery		79.90			
Rubber	Kuala Lumpur (8)				
Current delivery (May)		255.00	252.00	222.00	210.00
June delivery		255.00			
Jute	Dhaka (11)	260.00	260.00	260.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (May)		1,138.00	1,033.00	984.00	910.00
July delivery		1,074.00			
Sugar	New York (3)				
Current delivery (May)		11.66	10.97	10.39	12.00
July delivery		11.95			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		237.50	240.00	242.50	160.00
Wheat	Chicago (5)				
Current delivery (May)		314.60	329.20	376.00	352.20
July delivery		314.00			
Maize	Chicago (6)				
Current delivery (May)		259.00	265.00	294.20	224.20
July delivery		262.00			
Rice	Bangkok (7)				
5% white job		375.00	375.00	400.00	242.00
Soybeans	Chicago (5)				
Current delivery (May)		658.60	652.60	693.40	592.40
July delivery		657.60			
Cocoa	New York (7)				
Current delivery (May)		1,104.00	1,117.00	1,129.00	905.00
July delivery		1,130.00			
Coffee	New York (3)				
Current delivery (May)		84.25	80.45	74.25	54.00
July delivery		84.85			
Petroleum					
Sumatran light	Tokyo (10)	14.80	14.05	14.50	20.45
Brent	London (10)	15.86	15.28	14.08	18.91

(1) M\$ a kg (2) US\$ an oz (3) US\$ a lb (4) M\$ a tonne (5) US\$ a 60 lb bushel
 (6) US\$ a 56 lb bushel (7) US\$ a tonne (8) Int 1RSS Mc a kg (9) S\$ a 100 kg (10) US\$ a barrel
 (11) BWD, Chittagong/Mongia, US\$ a tonne Source: Telerate, International Jute Organisation

Currencies US\$1 worth:

	Apr. 25	Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.3924	1.3941	1.42	1.3862
Bangladesh*	taka	40.20	40.20	39.75	38.90
Britain	pound	0.6708	0.6773	0.6693	0.6312
Brunei	dollar	1.5565	1.559	1.6062	1.6157
Burma	kyat	6.1811	6.2094	6.2416	6.265
Canada	dollar	1.3765	1.3884	1.3113	1.2614
France	franc	5.771	5.8485	5.943	5.3095
Germany	mark	1.6835	1.7066	1.7514	1.57
Hong Kong	dollar	7.7268	7.7265	7.723	7.7255
India*	rupee	31.37	31.3675	31.375	31.0555
Indonesia	rupiah	2,150.00	2,148.00	2,122.00	2,072.00
Japan	yen	103.17	103.10	111.81	110.70
Macau*	pataca	8.10	8.10	8.10	8.05
Malaysia	dollar	2.691	2.6925	2.763	2.569
Nepal*	rupee	49.25	49.25	46.3772	46.1304
New Zealand	dollar	1.74216	1.7649	1.7637	1.8305
Pakistan	rupee	30.5195	30.5195	30.1998	26.6733
Papua N.G.	kina	0.9579	0.9552	0.969	0.9641
Philippines	peso	27.535	27.535	27.79	26.26
Singapore	dollar	1.5565	1.559	1.6062	1.6157
South Korea	won	807.40	809.00	810.20	796.00
Sri Lanka	rupee	47.633	47.633	48.14	46.4793
Switzerland	franc	1.433	1.447	1.468	1.4195
Taiwan	NT dollar	26.41	26.3835	26.47	25.9415
Thailand	baht	25.23	25.24	25.53	25.16

Communist countries: China US\$=Rmb 8.6925 HK\$=Rmb 1.125 Laos US\$=Kip 720
 Vietnam US\$=Dong 10,945

Other: Commonwealth of Independent States US\$=Rouble 1,792
 SDR1=US\$1.4102 ECU1=US\$1.1481 S\$1=M\$1.7277 Cambodia US\$=Riel 3,500

* Official rate † Middle rate Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

	Eurocurrency and Asian currency unit deposit rates (%)†					10 year govt bonds yield
Apr. 25	1 month	3 months	6 months	12 months		
US\$	3.8125	4.125	4.50	5.125		6.90
Sterling	5.00	5.0625	5.25	5.625		7.82
Yen	2.1875	2.25	2.375	2.5625		4.10
Swiss Fr.	3.9375	3.90625	3.9375	3.9375		—
Dm	5.375	5.3125	5.25	5.25		6.56
A\$	4.50	4.625	4.8125	5.4375		8.25
C\$	5.31	5.81	6.19	6.56		8.01
ECU	5.8125	5.75	5.6875	5.6875		7.29

† Offered rate Source: Telerate, Salomon Brothers

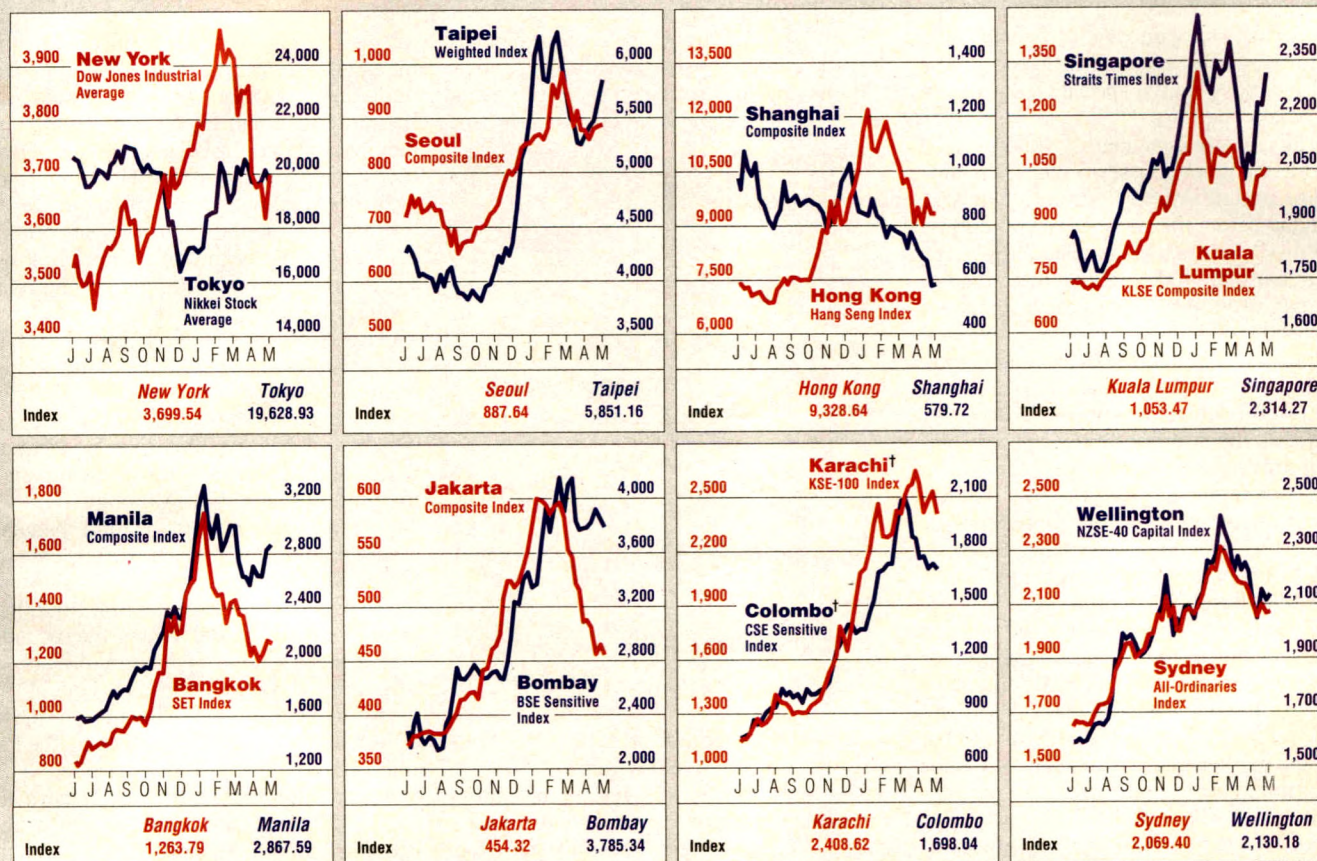
Economic Indicators, Selected Asian Countries

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1993	2.8	13.4	5.6	4(4)	6.7	0.2	8.5
1994	3.4	9	4	5(4)	7	2.6	8.4
International Reserves (5)							
Latest	US\$11.53b (Feb)	US\$22.08b (Nov)	US\$28.9b (Dec 91)	US\$13.51b (Feb)	US\$11.37b (Jan)	US\$101.42b (Feb)	US\$27.25b (Dec)
Year earlier	US\$9.61b	US\$23.28b	n.a.	US\$5.56b	US\$10.88b	US\$72.14b	US\$17.23b
Trade Balance (total merchandise)							
Latest 3 months	+US\$0.07b (Sept-Nov)	-US\$6.04b (Nov-Jan)	-US\$0.82b (Dec-Feb)	+US\$0.02b (Dec-Feb)	+US\$2.05b(8) (Nov-Jan)	+US\$30.97b (Jan-Mar)	-US\$0.26b (Sept-Nov)
Previous 3 months	-US\$0.32b	-US\$2.46b	+US\$0.57b	-US\$0.24b	+US\$2.17b	+US\$31.34b	+US\$0.67b
Year earlier	+US\$0.15b	-US\$0.97b	+US\$0.02b	-US\$0.41b	+US\$2.49b	+US\$29.18b	+US\$0.89b
Exports (6)							
Latest 3 months	US\$10.90b	US\$27.27b	US\$31.96b	US\$5.98b	US\$9.05b(8)	US\$91.98b	US\$12.43b
% change previous 3 months	+3.5	+11.2	-11.8	+13.5	-4.1	-0.6	+2.3
% change year earlier	unchanged	+17.5	+7.3	+19.0	-6.3	+6.0	+11.0
Imports (7)							
Latest 3 months	US\$10.83b	US\$33.32b	US\$32.79b	US\$5.96b	US\$7.00b(8)	US\$61.01b	US\$12.69b
% change previous 3 months	-0.2	+23.4	-8.0	+9.1	-3.6	-0.3	+10.6
% change year earlier	+0.8	+37.8	+10.2	+11.9	-2.4	+5.9	+23.1
Consumer Prices							
Base	Jul 89-Jun 90=100	Feb. 1993=100	Oct 89-Sept 90=100(2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	109.8 (Jul-Sept)	123.2(11) (Feb)	141.7 (Jan-Mar)	264.0 (Dec-Feb)	152.8 (Jan-Mar)	106.5 (Nov-Jan)	115.3 (Nov-Jan)
% change previous 3 months	+0.5	n.a.	+1.3	+0.8	+3.2	-0.5	+1.6
% change year earlier	+2.2	+23.2	+7.3	+5.7	+7.9	+1.0	+3.5
Money Supply (3)							
Latest	A\$233.3b(9) (Oct)	Rmb 3,007.59b (Oct-Dec)	HK\$949.52b (Feb)	Rs 4.28t(9) (Feb)	Rps 151.63t (Feb)	¥508.75t (Feb)	M\$131.97b (Nov)
% change previous month	+0.8	+9.1(10)	-7.5	+1.6	+3.2	+0.3	-0.6
% change year earlier	+6.4	+23.6	+27.2	+14.7	+25.2	+1.5	+18.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) To March (5) IMF definition of reserves minus gold except for Singapore

Stockmarkets

■ ■ ■ Hong Kong, Kuala Lumpur rally ■ ■ ■ Singapore surges 4% ■ ■ ■ Taipei, Manila advance ■ ■ ■ Seoul holds steady ■ ■ ■ Tokyo plunges 2.8% before holiday break ■ ■ ■ Bangkok slips in week ended on April 26 ■ ■ ■



Morgan Stanley Capital International Index = 610.9 (April 25)

Source: †Smith New Court (Far East Ltd.)

Interest Rates (%)

Philippines	Singapore	South Korea	Taiwan	Thailand
3 4.5	9.8 6-8	4.9 6.3	6.03 6.2	7.5 7.8-8.5
US\$4.79b (Jan) US\$5.14b	US\$48.36b (Dec) US\$39.89b	US\$20.71b (Feb) US\$18.04b	US\$84.10b (Jan) US\$82.52b	US\$25.29b (Feb) US\$20.81b
-US\$1.89b (Nov-Jan) -US\$1.70b -US\$1.27b	-US\$2.63b (Oct-Dec) -US\$2.37b -US\$2.91b	-US\$2.61b (Jan-Mar) +US\$1.20b -US\$1.70b	+US\$0.25b (Jan-Mar) +US\$2.26b +US\$1.34b	-US\$2.35b (Oct-Dec) -US\$1.32b -US\$2.77b
US\$3.09b +3.1 +24.8	US\$19.93b +1.4 +14.8	US\$19.95b -13.0 +9.3	US\$20.14b -7.6 +0.5	US\$9.89b +1.3 +11.4
US\$4.98b +5.9 +33.0	US\$22.56b +2.5 +11.3	US\$22.56b +3.9 +13.1	US\$19.90b +1.9 +6.4	US\$12.25b +10.5 +5.1
1988=100 188.0 (Dec-Feb) +2.5 +9.3	Sept 87-Aug 88=100 116.9 (Nov-Jan) +1.1 +2.8	1990=100 126.9 (Jan-Mar) +2.7 +6.5	1991=100 108.8 (Nov-Jan) +1.1 +3.5	1986=100 137.1 (Oct-Dec) +0.6 +3.9
P480.02b (9) (Dec) +7.7 +24.6	S\$82.13b (Dec) +1.3 +8.5	Won 112.90t (Mar) +0.3 +15.8	NT\$10.28t (Jan) +0.7 +14.2	Baht 2,488.0b (Jan) -1.0 +16.5

(6) fob (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month

Source: Official statistics

	Apr. 25	Prime lending	Interbank 1 month	Interbank 3 months	Interbank 6 months
Australia	9.50	4.75	4.875	5.0625	
Britain	5.25	5.125	5.25	5.4375	
Hong Kong	6.75	3.6875	4.3125	4.8125	
Indonesia	17.50	12.00	12.50	13.00	
Japan	*4.40 **3.00	2.3125	2.3125	2.4375	
Malaysia	7.20	4.20	4.25	5.20	
New Zealand	9.50	6.05	6.07	6.16	
Philippines	18.00	13.00	12.9375	12.50	
Singapore	5.25	3.8125	3.875	4.00	
South Korea	††12.20	—	—	—	
Taiwan	7.625	—	—	—	
Thailand	10.25	9.00	9.00	—	
U.S.	6.75	3.875	4.25	4.625	

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate Source: Telerate and Review Data

SHROFF

CHINA

Bond Allure

Beijing's biggest stock-trading floor, the local branch office of Zhejiang Provincial Securities, opened with banners and bunting, flights of good-luck pigeons, a police band — and a special Grand Opening Sale on equities.

The cut-rate merchandise was supplied by the Shanghai bourse, to which the new Beijing trading floor is electronically linked. The day before the April 22 ribbon-cutting ceremony for Zhejiang Securities, the Shanghai share index recorded the biggest one-day drop in its three-year history — a 5.8% slide to 552.5.

Individual punters led the initial rout, responding to news that the exchange would add four stocks to its 151-counter board. If the scarcity value of scrip was what drove the explosive rise of the bourse in its first couple of years, the equation has now reversed as the oversupply of new issues swamps faltering demand. Since its peak last February, the Shanghai index has shed two thirds of its value.

Zhejiang Securities General Manager Li Xun was unfazed. While in Beijing to launch the 2,000-square-metre trading floor at the erstwhile Peace Village Workers' Club, he said: "Now is the best time to get into the market. Shares can't stay down for long, not with the sort of economic momentum we've got in this country."

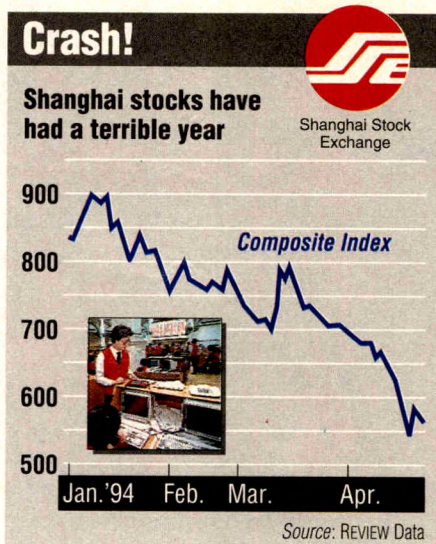
For punters like Lin Jianhua, however, the momentum has turned downwards. The 37-year-old jute-mill worker leaped to his death last year from a window in Li Xun's office block after paper losses of millions on the bourse. It was by no means China's first stockmarket-related suicide, but it was the first to be taken to court. Lin's widow sued his brokers for negligence in allowing him too much margin trading. She won an Rmb 50,000 (US\$5,750) "humanitarian" settlement in March.

Most Chinese investors lately seem to be weaning themselves from reckless equity speculation with a far less drastic leap: from the stockmarket into the bond market. In contrast to last year's failed treasury-bond issue, Beijing had sold off an impressive 31% of its targeted Rmb 90 billion of two- and three-year bonds by mid-April.

The sudden allure of bonds is all the more mysterious in light of their dismal returns. A senior economist at a British merchant bank sees the exodus from stocks to bonds as reflecting "a sea change in perceptions. A negative 10% real return on bonds with negligible risk looks pretty

good, stacked against a negative 5% with enormous risk on the stockmarket."

Institutional considerations, as well as economic bearishness, might be driving the bond-market forays of the banks, which have taken up nearly two thirds of the treasury paper sold in 1994. As part of a reform package designed to "commercialise" the banking system, institutions anticipate having to meet reserve requirements and capital-adequacy ratios. Government



securities may be admitted as allowable reserves, but surely not equities.

As for stocks, official rescue measures, including a postponement of some new issues have proved powerless to stem the general rout. But, then, why should the government vigorously combat the "crowding-out" effect of bonds on equities when it has an unprecedented Rmb 120 billion deficit to finance this year?

■ Lincoln Kaye

Direct Line

Every now and then investors are gently reminded of how little they know about those who arrange capital flows into China. The news that the Securities and Futures Commission (SFC) is investigating T. S. Wong (Investment & Finance) Co. is just such a reminder.

The little-known firm was originally in the SFC's black book for unlicensed dealing. Then, during the investigation, officials discovered that more than HK\$400 million (US\$52 million) in investors' funds had vanished. "We turned over a rock and a huge beetle emerged," says a source close to the SFC. Although the funds were largely meant for bullion trading, which techni-

cally isn't the concern of the SFC, "we can't put the rock down and walk away."

The reason the discovery made headlines has more to do with two Wong brothers, Stephen and Tony, than the missing funds. Both are known more for the connections they claim to have in China than for their track record in finance and fund management. Stephen controls the firm under investigation, while Tony heads Tien Lee (International) Investment. That company, in turn, controls Tien Lee Aero-Fund Investment Management, which manages a direct-investment fund into China. Each brother sits on the board of the other's company. That is the only direct link between the two companies, but it was enough to raise eyebrows.

The Aero fund (which isn't listed in Hong Kong) is viewed by many in the business as a conflict of interest. The deal flow stems from the Ministry of Aerospace, which also has a major role in deciding which of the ministry's unlisted companies the fund will invest in. Although Tien Lee has limited experience in the fund-management business, it plans to bring several more funds to market. SBCI Securities was the financial adviser on the first fund, but Hoare Govett is underwriting the second.

For those who are patient, more attractive alternatives are emerging. One of the most interesting is the China Automotive Components Fund put together by the Pacific Alliance Group. It doesn't depend on one source for its investments. Its partners include Norinco, the business arm of the People's Liberation Army; China National Automotive Industry Corp. and First Automotive Works.

"We have multiple sources for deals," says John Perkowski, the principal who put the fund together. "And because we supply components, we are not in conflict with anyone." And the sector is right — vehicle demand is expected to far exceed official forecasts. Moreover, those involved with the fund have operational expertise. Donald St. Pierre, who will direct the fund, used to head Beijing Jeep.

For those who have a good story to tell, like the Pacific Alliance Group, money is still available. The fund raised US\$160 million in six weeks.

Sadly for Beijing, though, investors like Perkowski are looking more to collectives than to state-owned enterprises. "They have been around long enough to have a track record," notes one source who expects to invest in six or seven such businesses this year. "They are surviving because they are entrepreneurial, not because it is Beijing's policy to protect them."

■ Henny Sender

Appointments

Viet Nam : Country Manager

We are an international consulting firm that currently is providing technical assistance to the Government of Viet Nam in the areas of state enterprise restructuring and privatization. In addition, the firm is rapidly developing a country practice that provides strategic consulting services for a large corporate client base and transaction-related services for both buy and sell side clients who have an interest in Viet Nam. In order to create a growing, sustainable practice in Viet Nam, we are looking for an individual with the following qualifications:

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- A combination of superior financial analytical skills, leadership capabilities, and an ability to operate effectively in an environment that is entrepreneurial, highly competitive and demanding. Highly developed marketing and business development skills also are essential.
- A willingness to live in Hanoi for a minimum of 1-2 years.
- A strong knowledge of Asian investment climates and enterprise cultures. Previous on-the-ground work experience in Asia is highly preferred.
- Proficiency in Vietnamese a plus.

Please fax complete CV to :
202 785-3607
Attention : Ms. Kristina Tzanoff

**Postdoctoral
Fellow/
Research
Fellow**

*Research School of
Pacific and Asian
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Australian National University,
Canberra, ACT 0200, Australia.
Contemporary China Centre,
Research School of Pacific &

**The
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Asian Studies (RSPAS) wishes to appoint Postdoctoral Fellow (2 yrs possible extension to 3 yrs) or Research Fellow (3 yrs possible extension to 5 yrs).

Appointment in the field of political science or the political history of the PRC; research experience of China, PhD or equivalent, capacity to read Chinese-language sources all essential.

Further particulars, including selection criteria, from School Secretary, PSPAS (Fax: (616) 249 4214).

Applications to the Secretary, The ANU, Canberra, ACT 0200, quoting ref. no. PA 13.4.2 including vita, list of publications, names and addresses of 3 referees.

Closing date 29 July 1994.

Applications from suitably qualified women particularly welcome.

The University has a "no smoking" policy in all University buildings and vehicles. The University is an Equal Opportunity Employer

REVIEW

CLASSIFIED SECTIONS

The classifications available in this section are as follows; when booking, please state your requirements:

Appointments	Investment Opportunities
Business Equipment	Notices
Business Opportunities	Personal
Business Services	Property
Conferences & Exhibitions	Positions Wanted
Courses & Seminars	Publications
Education	Residential Schools
Fellowships	Universities
Hotels & Accommodation	

SOUTHEAST ASIA NRM SPECIALISTS

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Reservations should be addressed to:

International Classified Manager,
Far Eastern Economic Review,
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Appointments



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Duties: To review projects with social impacts; identify problem areas relating to resettlement, beneficiary participation and other social issues (including indigenous peoples and gender); provide intellectual leadership on resettlement, land acquisition, poverty and ethnic minorities; develop programs to promote community participation; and conduct environmental assessments.

General Requirements: Advanced degree (Ph.D. preferable) in Anthropology or Sociology, with several years of work experience in resettlement, land acquisition, community participation and/or natural resources management/environment in **East Asian and South Asian contexts**; proven capacity for intellectual and operational leadership; experience in development work with leadership/participation in multi-disciplinary teams; proficiency in English with, preferably, knowledge of at least one East Asian language.

Contest



APO Essay Contest 1994

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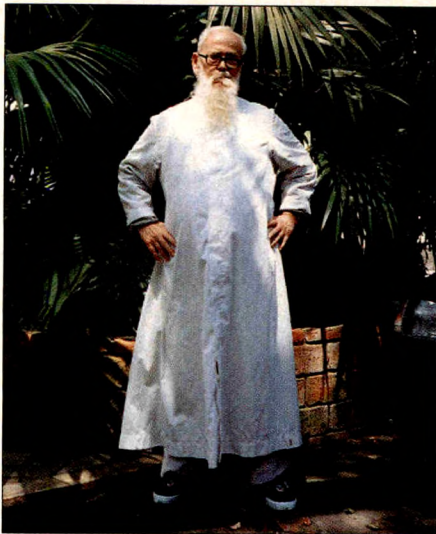
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SOUTH CHINA (MACAU) TRAVEL AGENCY LTD.

PROFILE

Manuel Teixeira
Macau

A Priestly 'Ghost'

82-year-old historian and columnist also functions as romantic prop for Japanese couples

By Erling Hoh

It was a cool, clear day in Macau and Kii Fumiko and her fiancé, Hara Takehiko, had come all the way from Osaka to get married. As they descended the roughly hewn steps of the hotel Pousada São Tiago, a video-cameraman and a photographer, part of the package-tour deal, captured their precious moment on film. To seal it, awaiting them at the bottom of the staircase, in black sneakers and a white cassock, his long beard gleaming yellowish in the morning light, was the man once known as "the ghost of Macau," Monsignor Manuel Teixeira.

At 82 years of age, Teixeira still performs his priestly duties in this tiny Portuguese enclave, including functioning as a romantic prop when he is not busy with his main occupations these days, that is, the contemplation of God and penning columns for the newspapers *Macau Hoje* and *Gazeta Macaense*.

"I asked one of these Japanese couples how they knew of me," says the priest back in his room at the government hospital near Guia Hill, where he has been staying since suffering a mild stroke at the beginning of this year. "We saw your picture in a magazine," they answered. I am very famous in Japan. Every month one or two Japanese couples fly here to be married by me. I think they like my beard."

From his hospital room's window, the view consists of the stretch of reclaimed land with the casinos, night clubs and massage parlours now synonymous with Macau. "When I came here the sea started at the foot of this hill," he says. "The villas were one-and two-storied, with verandas and columns, painted in beautiful colours."

In those days, St. Joseph's Seminary in the old city centre had 70 seminarians and several ordinations every year. Together with four other boys from the town of Freixo de Espada à Cinta in northern Portugal, the young seminarian arrived in Macau on October 27, 1924. Since then, operating from the seminary, the priest has helped recreate a history of this Portuguese enclave.

In 1937, when he embarked upon writing the history of the church in Macau, he estimated its length at two volumes. But once his ebullient spirit had engaged the topic, it did not rest until every crumbling document had been consulted. In the end the work came to 16 volumes. He went on to write about the Portuguese in Vietnam, Thailand, Malacca, Timor and Singapore. Scouring archives all over Southeast Asia, Teixeira has written more than 120 books about the Portuguese in the Far East. Twice the Portuguese Academy of History has honoured him for his work. His most recent book, a history of missionaries from his hometown, was published early this year by its municipal council.

In 1966, China's Cultural Revolution

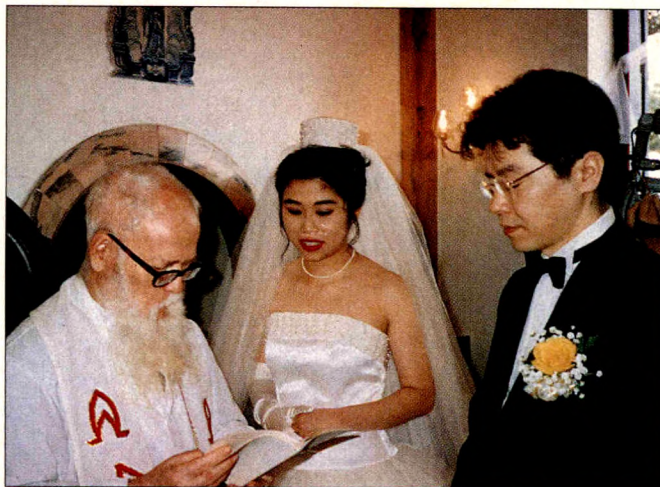
spilled over the Barrier Gate into Macau. When the Red Guards could not find the diocese's bishop, whom they intended to force to sign a declaration in which he would promise to teach the tenets of Chairman Mao Zedong's little red book in the enclave's Catholic schools, they sought out Teixeira. "You don't know where he is," he told them. The declaration was never signed.

Two years later, St. Joseph's ordained its last priest. The seminary was all but abandoned. It was at this time that he became known as "the ghost of Macau," emerging as he did every evening from the desolate compound dressed in his white robe to walk across the Taipa bridge.

Today, the seminary's green shutters are never opened and the occasional tourist who asks to see the tiny museum is turned away. The seminary's inhabitants, five retired priests on pensions from the Portuguese Government, pass their days among the echoing corridors and empty rooms.

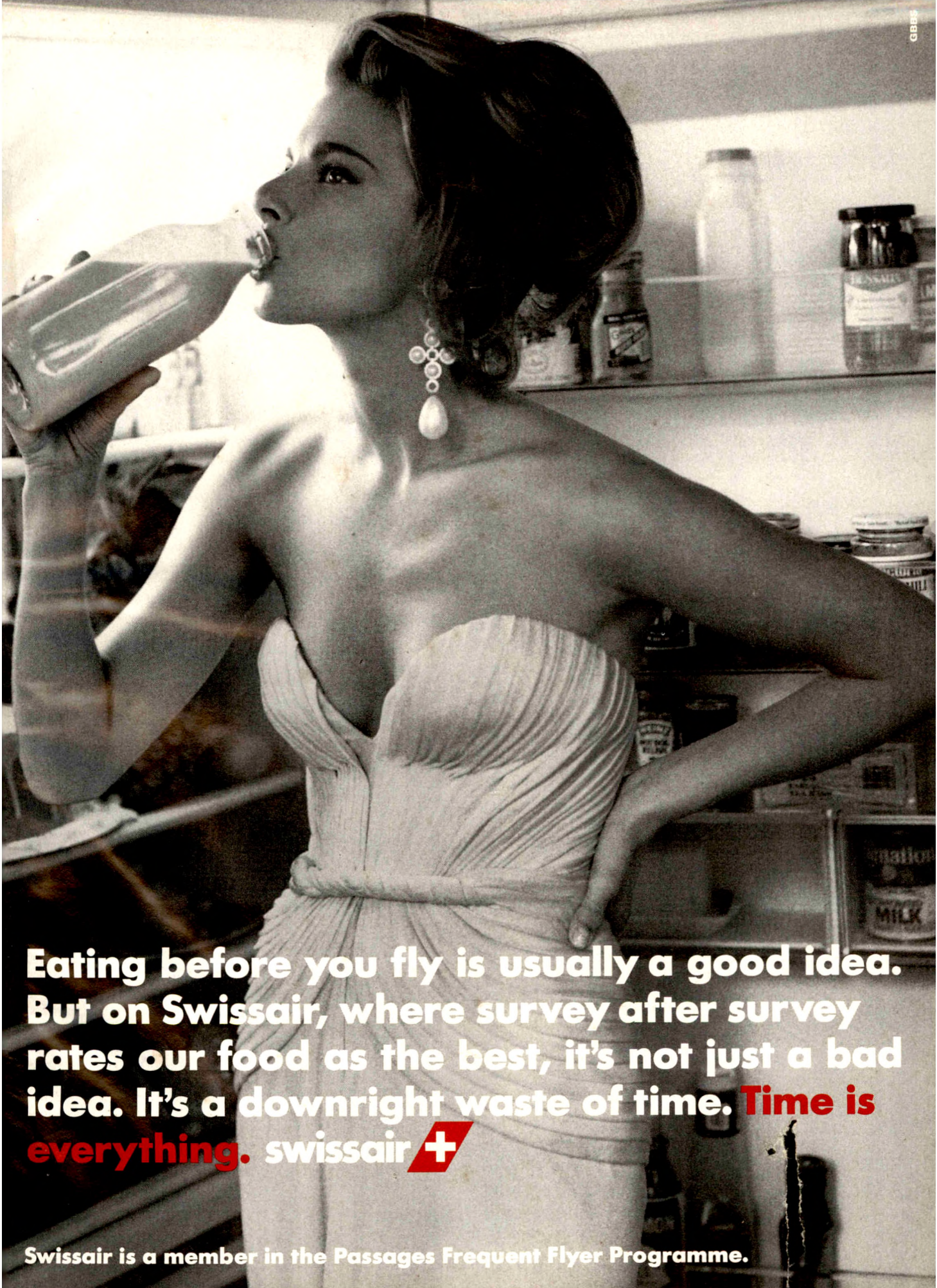
Teixeira estimates that there are now 22,500 Roman Catholics in Macau's seven parishes. In comparison, the Macao police sets the number of gang members employed in drugs, prostitution and loan-sharking at 30,000.

Although the Sino-Portuguese Joint Declaration on the future of Macau provides for the continuation of religious freedom for 50 years after the handover, Teixeira is pessimistic. "I do not trust the communists," he says. What then does he have to say of 440 years of efforts to bring Christianity to China? Why is China not a Christian nation today? To Teixeira, the answer is short and simple: "They think their philosophy is better than ours. ■"



Many Japanese couples fly to Macau to be married by the priest.

SOUTH CHINA (MACAU) TRAVEL AGENCY LTD.

A black and white photograph of a woman with short, dark, wavy hair, wearing a white strapless dress and large, ornate earrings. She is holding a large white milk carton to her mouth and drinking. The background shows a kitchen with shelves containing various jars and bottles, including one labeled 'MILK'.

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ALVIN TOFFLER



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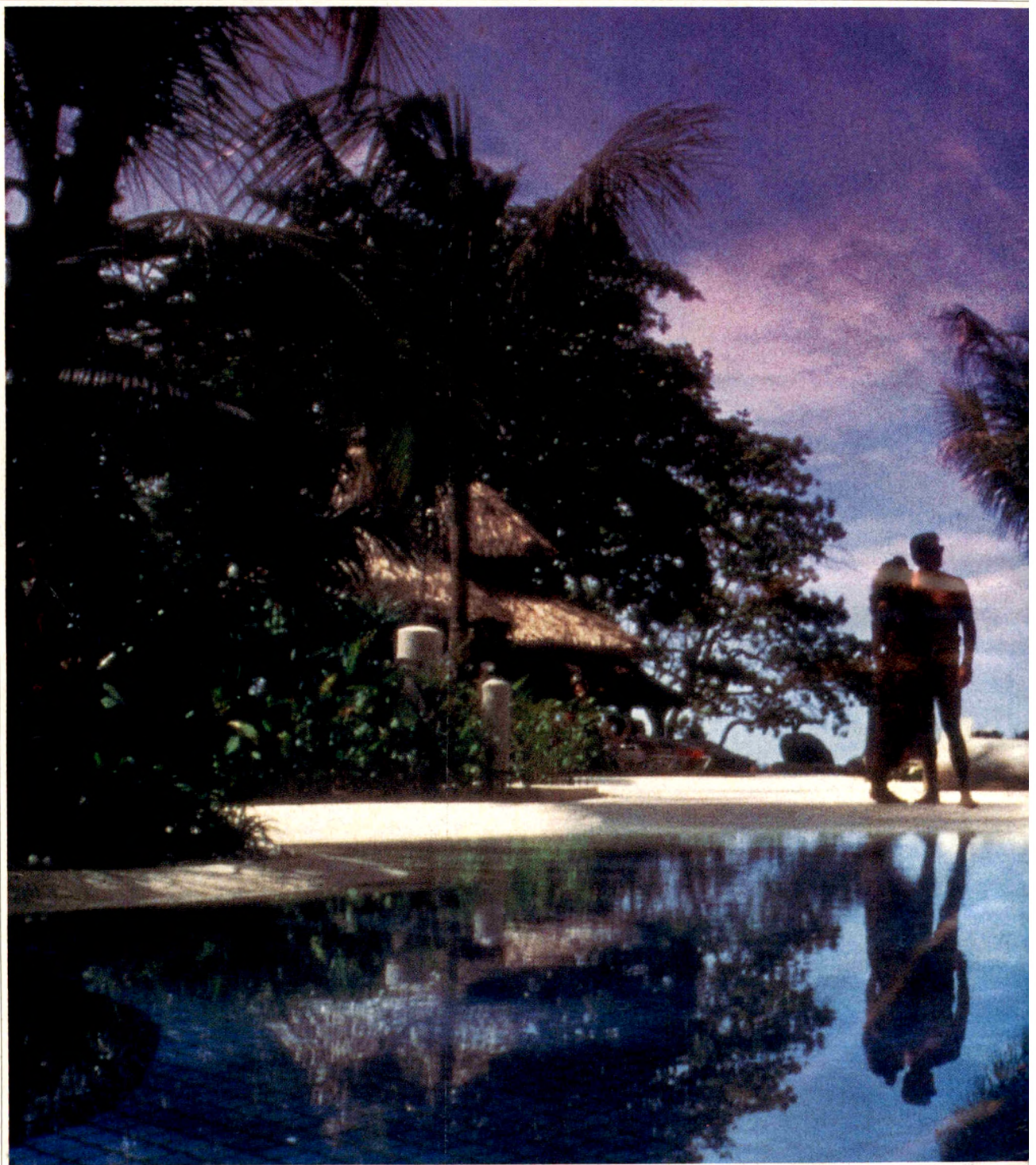
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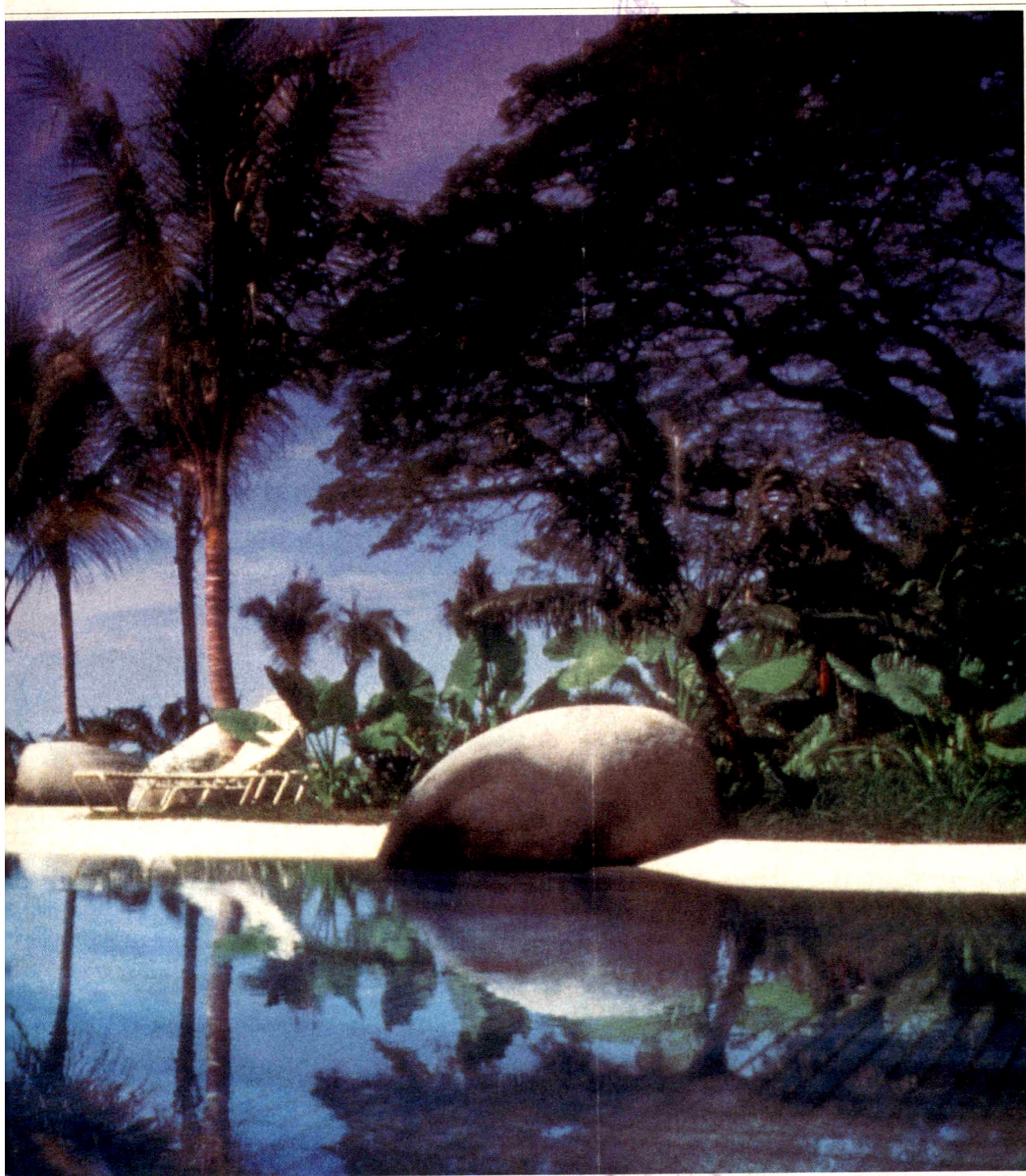
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LETTERS

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The Fourth Estate

Your report about the *Times of India* [Changing Times, Mar. 24] is a good example of caste loyalty. One must stand by one's fellow caste member; in this case, one's fellow journalist.

Dilip Padgaonkar, editor-in-chief, carried with him the heavy baggage of the left, as did many of the other editors whom you report being forced out by the owner, Samir Jain. The editorial space was filled with their Stalinist and anti-Hindu verbiage.

In truth, Jain had no choice with Rupert Murdoch on the horizon. To keep the *Times of India* at the top, he needed new editorial "software" to go with his new hardware.

LAXMAN N. GODBOLE
Bombay

Tall Tales

It seems to me that your TRAVELLERS' TALES column is as ineptly named as some of the companies and services it picks on. Most of the column has nothing to do with either travel or tales. Instead it appears to be a vehicle for the pontifications of its author.

In looking at your April 21 issue, for example, I find only one item that is in fact a tale told by a traveller. That means that 89% of the content is not. One was a mini-editorial. Another, which at first appeared to be a traveller's tale, turned out to be supplied by someone who *lives* in the city where it took place; thus it had nothing to do with travel.

The TRAVELLERS' TALES column is a pleasant little diversion, and I enjoy reading it. I just think you should rename it.

ERIC SCHOLL
Managing Editor
Japan Business Today
Tokyo

Double Standards

With regard to your April 7 article **Fighters for Peace**, once again Pakistan has been subjected to the dual standards of the U.S. towards nuclear proliferation in South Asia. The U.S. offer of 38 F16 fighters in exchange for capping, reducing and finally rolling back Pakistan's nuclear programme is a hefty price to pay when set against the sovereignty of the nation. Why Pakistan

and not, say, Israel? Any number of nations are undeclared members of the nuclear club, but the Pressler and Symington legislation has never been applied to them.

In this post-Cold War era, the pursuit of global peace can be achieved by global nuclear disarmament, not by regional or forced disarmament. In this regard the nuclear club members — the U.S., Britain, Russia, China and France — can take the lead and advance the cause of nuclear non-proliferation by eliminating their nuclear inventories. Until this happens, no developing country will be willing to give up its nuclear option. Likewise the Pakistani people will not agree to put up their sovereignty as collateral for 38 fighter aircraft.

AHMED S. KHAN
Lombard, Illinois

Yes, Minister

I should like to refer to your April 7 article **Island Hopping** in which you wrote that "after 1997, members of the SFC takeover panel . . . will be chosen by the Chief Executive of the Chinese Special Administrative Region . . . Current members, including SFC and exchange officials, merchant bankers and financial executives, are appointed by the colonial governor." This is factually wrong.

The fact is that the Takeovers and Mergers Panel in Hong Kong is a committee of the Securities and Futures Commission (SFC) established under section 6(1) of the Securities and Futures Commission Ordinance, Chapter 24 of the Laws of Hong Kong. Members of the panel are appointed, and may be removed, by the SFC. Details of the composition of the panel are set out in paragraphs 6.3-6.10 of the Codes on Takeover and Mergers and Share Repurchases, which is a non-statutory code administered by the panel. We envisage that the current system will remain after 1997.

TAM WING-PONG
for Secretary of Financial Services
Hong Kong

New Name

I am writing to correct an error that appeared in your April 21 issue [WHERE TO PUT YOUR MONEY], identifying Wardley International Management Ltd. as a member of the Hong Kong Investment Funds Association. As of February 28, the name of the company was changed to HSBC Investment Funds Hong Kong Ltd.

T. C. THOMPSON
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Strobe Lights Over China

Out of the MFN trap: Golf anyone?

The effort to link MFN to a foreign government's respect for human rights is especially misguided in the case of China. Since sanctions are intended to keep Chinese-made products out of the American market, they will harm, first and foremost, those Chinese who are involved in export businesses. That means manufacturers, merchants and wheeler-dealers who benefited from the Good Deng's free-market economic reforms. These entrepreneurs are, in the main, liberals or at least apolitical. Granted, they are not as brave or noble as the pro-democracy activists who faced down the Bad Deng's tanks in Tiananmen, but they are essentially on the same side. Their commercial success is part of the larger process of coaxing China away from communism, and they are a key part of the generation that will take over from the old men any day.

Bill Clinton might be interested to note that the source of these words was not a Chamber of Commerce delegation but his own deputy secretary of state, Strobe Talbott. Mr. Talbott, of course, was not in government when he wrote them for *Time* magazine two years ago, but they are all the more pertinent today.

With the June 3 deadline less than a month away, Washington continues to agonise over whether China "deserves" to have its most-favoured-nation (MFN) trade status. If by China we mean the officials in Beijing, there is little doubt of the merits. Whether out of clumsiness or cold calculation, their recent heavy-handedness — roundups of dissidents, new restrictions on religion, a cover-up of the Qingdao Lake murders — can in no way be reconciled with the demand for "significant, overall progress."

If, however, China is defined as the Chinese people — the chief casualties of their government's violations — the answer is clear. For them, the trade and investment that MFN offers represents opportunity: the chance to manage their own lives, feed their families and perhaps, in the long run, the hope that their grandchildren might know a measure of stability and freedom. These people do not deserve to have trade, arguably the most progressive force in Chinese history, removed on the basis of a political promise made in the heat of a presidential campaign an ocean away.

As we have noted before in these columns, there are many ways other than MFN for America to express the moral dimensions of its China policy. It might begin by recognising the fact of Greater China. In particular it might move to encourage those parts of this Greater China that have already moved, or are moving, in the direction of openness and freedom. The Taiwanese, for example, have long been subjected to countless indignities from the State Department, such as the regulation that prevented President Lee Teng-hui from spending a few days with his children living in New York. State has likewise been careful not to offend Beijing's sensitivities in its dealings with Hong Kong Legislator Martin Lee, the man with the best claim to represent-

ing the people of that colony.

Our modest proposal is that Mr. Clinton invite the two pro-democracy Lees to his home in Little Rock for a friendly, face-giving round of golf. Once there he might explain that he was determined to renew MFN for China because the evidence had persuaded him that it both served American interests and acted as a liberating force for the mainland. Doubtless Beijing would not be pleased by any such meeting, notwithstanding the renewal of MFN. But Mr. Clinton would have scored a hole-in-one for the point that political differences can be dealt with politically.

Again, we would recommend the words of Mr. Clinton's deputy secretary: "It is easier for a member of Congress to tell his constituents — or a candidate challenging Bush to tell the voters — 'I'm against the butchers of Beijing!' than to explain how free trade with China strengthens the reformers and moderates for the power struggle to come." True. But that's the difference between a candidate and a president. ■

Reform Language

Ramos vs special interests

Among the many peculiarities of developmental economics surely the most odd has to be its terms of discourse. Governments that add new taxes and raise prices are called "responsible," while those that refuse such intervention are tagged for "do-nothingism." Rarely is it suggested that the cause of many of the problems these nations hope to overcome is government itself.

No people have paid a higher price for this confusion than Filipinos, as this week's cover story suggests. Only this February, for example, President Fidel Ramos backed down, in the face of public protest and violence, on a plan to raise oil prices. Much of the coverage noted that the hike was designed to reflect a one-peso-per-litre levy he had imposed in September to raise revenue for his cash-strapped government. Yet the fundamental problem here is that the Philippine Government subsidises the price of oil through a special fund that itself comes from taxing other parts of the economy.

The inefficiencies thus created have a perverse way of feeding off one another, and indeed Philippine political life remains defined by special interests vying for government favours in the form of bureaucracy, regulation and protectionism. The nation's many monopolies retain power and Filipinos are blocked from exploiting their own talents. For decades the Philippines has had no shortage of foreign experts and politicians recommending a better government. Perhaps it's time instead for Mr. Ramos to devote his energies to leaving behind a smaller one. ■



diary five years in advance.

Yet Dame Kiri remains her usual straightforward and uncompromising self. "To arrive early is unfortunate, but to be late is the rudest thing imaginable," she insists.

Then, relenting, she smiles and she adds "sometimes I do not know whether

Without question, **"Time I value above all things. It just gets more and more precious."** I organise time, or time organises me."

her career has been triumphantly consistent over the years. Yet Dame Kiri Te Kanawa readily admits that one thing has changed: her attitude to time.

"It is so beautifully expressed in Der Rosenkavalier," she says, translating the part of The Marschallin from memory; "I go through the house in the middle of the night, and I hear the ticking of the clocks. I cannot stop them; I cannot turn them back. It is like the snow falling."

Dame Kiri may well feel that time has speeded up year by year until January to January now flies.

Her punishing schedule fills her

One thing, however, remains clear. As a family woman, she finds that time is most precious to her – "when I'm leaving, when I have to say goodbye; that's the hardest part of all."

For seventeen years Dame Kiri has worn a Rolex and insists that she would never ever be without it.

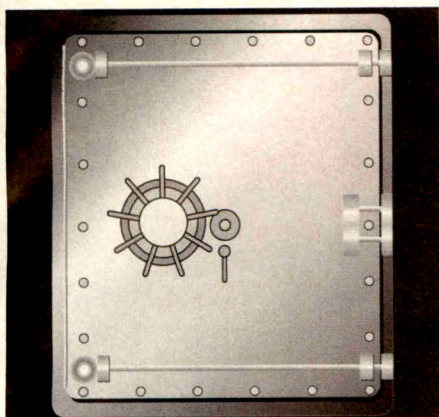
Of her treasured gold Lady Datejust Chronometer with its diamond bezel she says "it is very beautiful, very elegant, quite wonderful." It is gratifying indeed to hear that in an ever accelerating world, certain things at least remain constant.


ROLEX
of Geneva

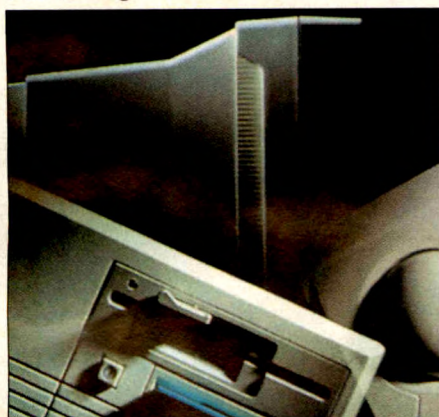


The Rolex Lady Datejust Chronometer in 18ct. gold with The President bracelet. Bezel and dial set with diamonds.

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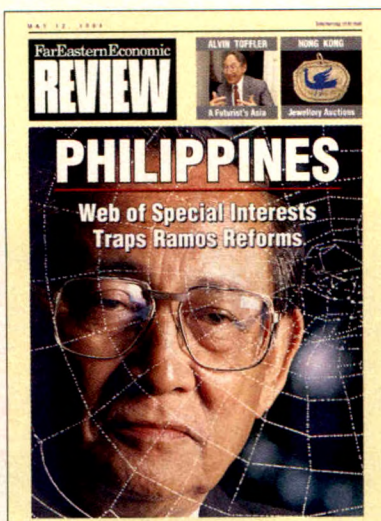
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Apple's computers dig into Japan, but the battle's far from over. Page 52.

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COVER STORY

The Philippines, for so long plagued by attempted coups, guerilla insurgencies and natural disasters, has at last put the worst of its problems behind it. But, just as Asia's most famously laggard economy finally seems ready for take-off, it looks as though political infighting and squabbles over patronage will strangle the recovery. Correspondent Rigoberto Tiglao analyses President Fidel Ramos' chances of manoeuvring around the political gridlock affecting the country. Page 22.

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Regional

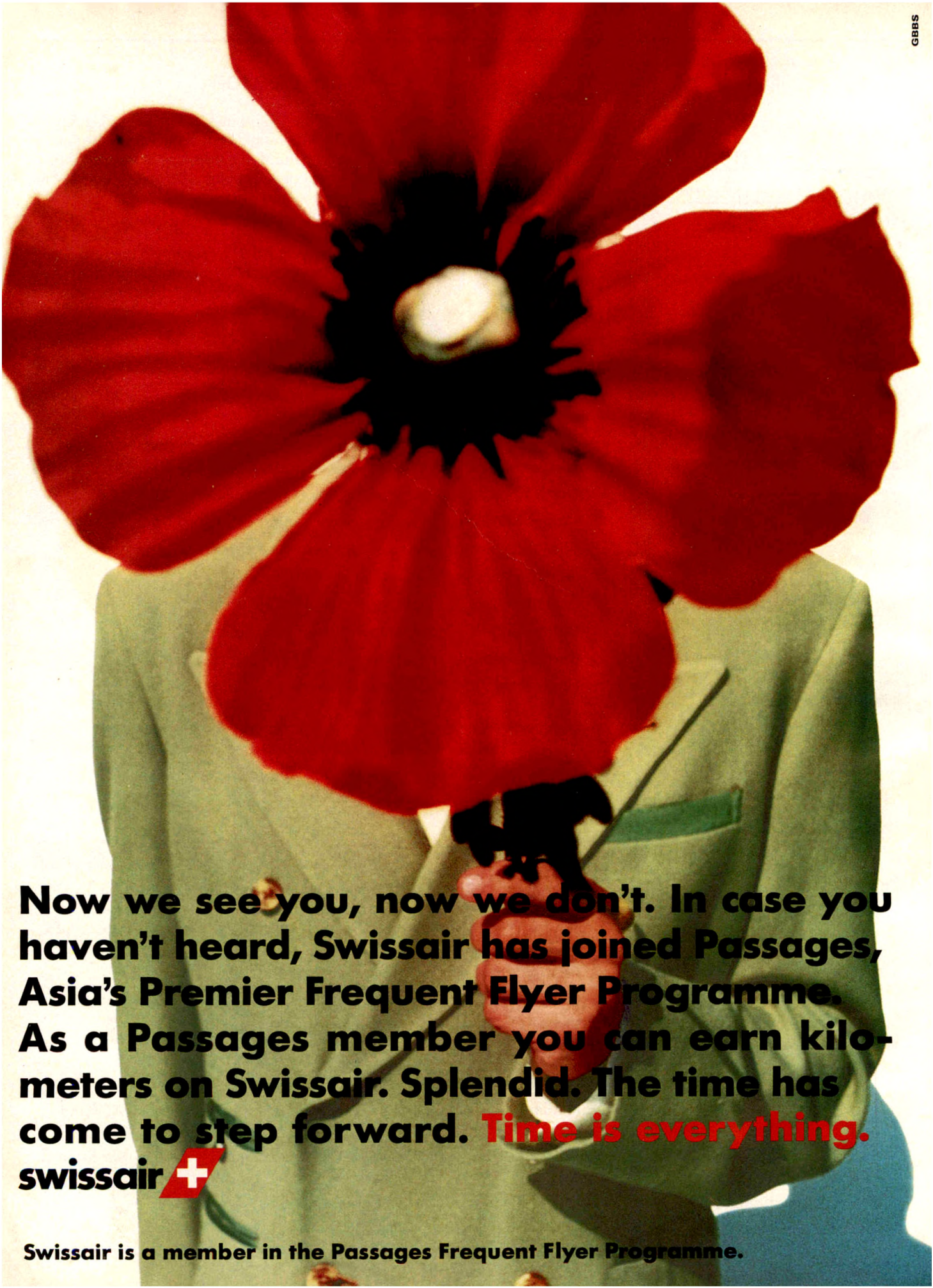
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A large, vibrant red flower is held in front of a person wearing a light-colored suit jacket. The flower's petals are spread wide, and its dark center is prominent. The person's hand is visible holding the stem of the flower. The background is a plain, light color.

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BANQUE INDOSUEZ

how to be unique

TORRENTE HAUTE COUTURE

SHERPA Photo: Gianni Geronzi

In Other Words

"Li Peng is ruthless, intelligent . . . and in a struggle after Deng's death would have Jiang Zemin for lunch."

Newly revealed remark by the late Richard Nixon.

"I told them it was not I who needed to be reformed, it was they."

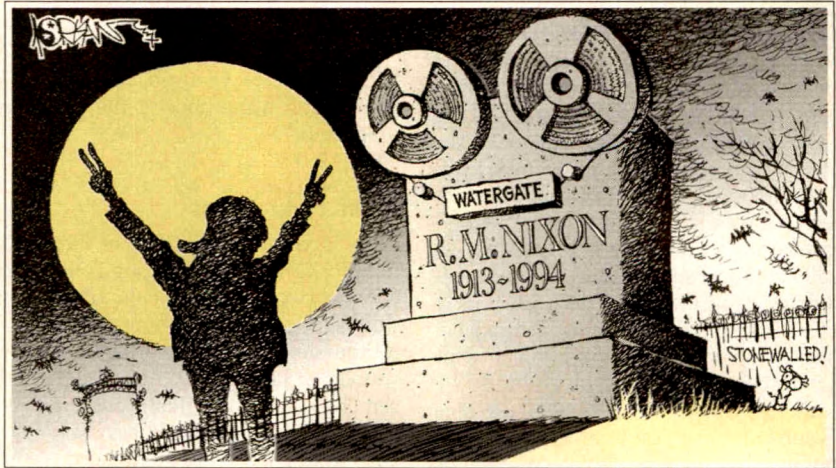
Just-released Chinese dissident Wang Juntao, shortly after arriving in New York City.

"I am an actor and Ozawa writes the scenario."

Japan's new prime minister, Tsutomu Hata, summing up the behind-the-scenes power of political heavyweight Ichiro Ozawa.

"His pigsty is better than our homes."

Chinese peasant Shi Jingfa, accusing his local village boss of misusing public funds for personal gain.



NEWS ITEM: FOLLOWING THE DEATH OF RICHARD NIXON, HISTORIANS WILL LAUNCH NEW ATTEMPTS TO ACQUIRE HIS WHITE HOUSE TAPES.

"I'd rather be dead than blind."

Imelda Marcos, asking a Manila court to allow her to go to the United States for medical treatment of glaucoma. The former Philippine First Lady is prohibited from travelling abroad pending her appeal of a corruption conviction.

"I am a man and have a man's basic needs."

Hong Kong property and media tycoon Lam Kin-ming, defending his practice of flying to Taiwan to patronise prostitutes.

"I wish to have as many wives to match my age."

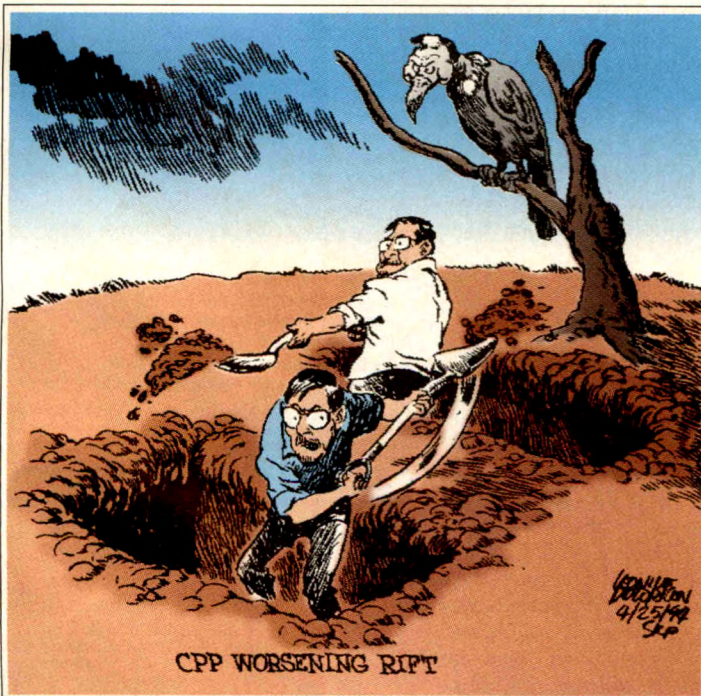
Bangladeshi rickshaw puller Kanchan Ali, age 30, after he was recently deserted by his 30th wife.

"China had better mind its own internal affairs."

Indonesian Justice Minister Utoyo Usman, after Beijing criticised recent riots against ethnic Chinese in Medan.

"The Japanese tend towards inactivity in their sexual behaviour."

An entry in *Le Japon 1994*, an introduction to Japan published by the French Embassy in Tokyo and the Institut Franco-Japonais de Tokyo.



NEWS ITEM: RIVAL FACTIONS IN THE COMMUNIST PARTY OF THE PHILIPPINES ISSUE DEATH THREATS AGAINST EACH OTHER.

Leonilo Doloricon/The Manila Times

Please share quotes you see: REVIEW, GPO Box 160, Hong Kong, or fax (852) 503-1530.

INTELLIGENCE

The Common Touch

Two rival Chinese communist leaders are locked in a popularity contest of the kind rarely seen in totalitarian states. Both President Jiang Zemin and Premier Li Peng have been carefully cultivating their public images as popular and friendly men of the people. Jiang, the more flamboyant of the two by the grey standards of Chinese leadership, appears to have started the race when he gave an impromptu karaoke performance on an airplane trip recently. Li, usually stiff and stern, did the same on his way back from Central Asia to Beijing in late April. On May 1, Jiang celebrated Labour Day in Shanghai, conspicuously sharing a few jokes with local workers. Li, meanwhile, was in Inner Mongolia, where he went so far as to don native Mongolian costume. Chinese expect to see more such performances as the two compete more aggressively for the succession to ailing patriarch Deng Xiaoping.

Noisy Departure

"Write whatever you like," Taiwan's Central Bank Governor Samuel Hsieh yelled at reporters when asked whether he was going to step down when his term expires at the end of May. Voluble and feisty as always, Hsieh refused to talk about his plans. But speculation is rife about his future. The *Commercial Times* reported that



Samuel Hsieh.

Hsieh would step down, to be replaced most likely by Liang Guo-shu, chairman of Chiao Tung Bank. Other bankers say Hsieh will be reappointed for a one-year term while the presidential office decides what to do. For their part, Central Bank officials insist that no decision has been made and that an announcement on the next governor isn't likely until late May.

Alive & Kicking

Kim Yong Sun, a North Korean communist politburo member responsible for international liaison work who was reported purged for unknown reasons last

December, is actually very active in Pyongyang. It was he who arranged President Kim Il Sung's first interview with CNN television in early April, as well as a subsequent interview with NHK of Japan. Whether the 60-year-old, Moscow-trained Kim is still a member of the politburo is unknown.

Later Retirement

Indonesian Armed Forces (Abri) Commander Gen. Feisal Tanjung is likely to receive a two-year extension of his active-duty status before reaching the mandatory retirement age of 55 in mid-June, defence sources in Jakarta say. An official announcement is expected this month. Tanjung's extension would make it less likely that the current army chief of staff, Gen. Wismoyo Arismunandar, a brother-in-law of President Suharto, will ultimately ascend to the Abri commander slot. Wismoyo turns 55 in February.

Pre-Emptive Apology

Some diplomats in Bangkok were surprised when Cambodian Foreign Minister Prince Norodom Sirivudh sent a message to his Thai counterpart, Prasong Soonsiri, apologising for Phnom Penh's verbal assault on the Thais for allegedly backing the Khmer Rouge. But Thai officials knew better. They had been told earlier that Sirivudh was anxious to pre-empt a planned statement by Thailand's Asean partners criticising Phnom Penh leaders for their relentless accusations against Thailand on the subject of support for the Khmer Rouge. Prasong accepted Sirivudh's apology, and Asean officials scrapped their proposed statement.

Ramos' Road

The fledgling Autonomous Region for Muslim Mindanao, which comprises the Muslim-dominated provinces of Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi, is getting a boost from President Fidel Ramos. In order to speed up infrastructure projects in the region — critics say in time for the 1995 local elections — and to stop squabbling among its officials over their allocation of infrastructure projects, Ramos deployed the Philippine army's 55th and 52nd engineering brigades to construct most of a 45-kilometre concrete road linking Cotabato and Lanao provinces. The P110 million (US\$4 million) funding for the project will be coming from the region's P615 million "seed capital" authorised by Congress.

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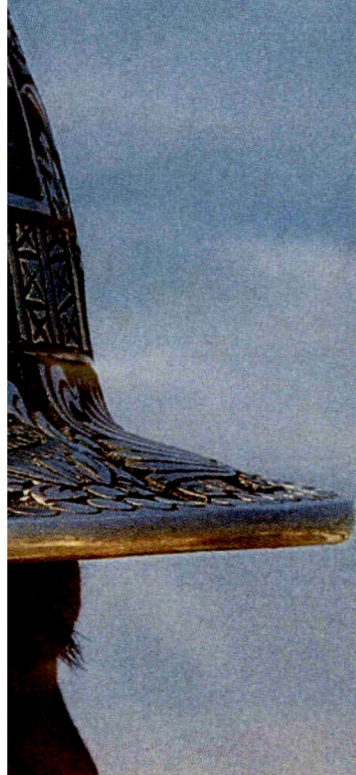
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JOAILLIER EN HORLOGERIE DEPUIS 1874
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25 years in Indo

Is there a better symbol to celebrate 25 years of TOTAL in Indonesia than this ceremonial helmet? Today, Indonesia is the largest exporter of liquefied natural gas in the world, supplying the fast expanding Asian markets, and TOTAL is one of the major gas producers in the country. The development of the Mahakam area, in association with the Indonesian national oil company PERTAMINA, is a real success story, especially with the discovery of oil and gas fields such as, Bekapai,



esia and it shows.

Handil, Tambora, Tunu and Peciko. TOTAL and PERTAMINA have recently renewed the Mahakam permit for another 20 years, and the full extent of its reserves and potential is still being appraised. The long lasting partnership between TOTAL and Indonesia is no coincidence. It is the result of a mutual long-term commitment, which is the way TOTAL likes to work. **TOTAL BY NAME. TOTAL BY NATURE.**



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Everyday, we take nearly 200,000 travellers under our wing. With a standard of service you can only expect from a truly global airline. It's this dedication to your comfort that makes world travel easier. United. Come fly the airline that's uniting the world. Come fly the friendly skies.

The background of the advertisement is a dramatic, painterly illustration of a United Airlines aircraft in space. The plane is shown from a front-on perspective, appearing to fly towards the viewer. It is set against a deep blue, star-filled sky, with a curved horizon line suggesting the Earth's surface below. The aircraft's white fuselage and dark blue tail are prominent, and its wings are spread wide. The overall style is reminiscent of a classic oil painting, with visible brushstrokes and a rich, textured appearance.

 **UNITED AIRLINES**

REGIONAL BRIEFING

BURMA

Army Chief Promoted

The Rangoon military junta has elevated army chief Maung Aye to vice-chairman of the country's State Law and Order Restoration Council (SLORC). The move was seen by diplomats as strengthening the grip on power of SLORC's first secretary, the hardline Lieut.-Gen. Khin Nyunt, and a defeat for the camp of its chairman, Gen. Than Shwe.

VIETNAM

Borders and Boat People

Vietnamese President Le Duc Anh and Indonesia's President Suharto agreed to expedite the demarcation of their common border in the South China Sea. During Anh's April 26-29 visit to Indonesia, he and Suharto also agreed to speed up the repatriation of some 8,000 Vietnamese "boat people" now being held on Galang island.



Le Duc Anh.

BANGLADESH

Tribal Talks

Rebels of the Shanti Bahini tribal guerilla movement demanding autonomy for the Chittagong Hill Tracts agreed to hold a seventh round of peace talks with the government on May 5. Communications Minister Oli Ahmed will head the government team at the talks.



Beijing students: learning to finance themselves.

CHINA

Spate of Executions

Judicial authorities in the north China city of Shijiazhuang have sentenced 45 people to death in a "spring offensive" against crime. Condemned prisoners in China are usually shot shortly after they are sentenced. Many local newspapers also reported a spate of death sentences and executions in the run-up to the May 1 Labour Day holiday.

Learning Costs

Students at China's 37 top universities will have to pay tuition and find their own jobs after graduation under a new system. The change will take effect with this autumn's new students.

TAIWAN

New DPP Chief

Shih Ming-teh, dubbed "Taiwan's Mandela" after spending 25 years in prison, was elected chairman of the country's main opposition party, the Democratic Progressive Party, on May 1. He vowed to fight for the island's independence. Shih, 53, defeated Yu-Chen Yueh-ying, 69, matriarch of the influential Yu family in the southern county of Kaohsiung, by a vote of 206-145 in a party vote.

Vote Fraud Indictments

Prosecutors on May 2 charged 14 people with election fraud, bringing to 383 the number indicted so far in a massive vote-buying scandal, a Justice Ministry spokesman said. Prosecutors are still searching for evidence against dozens of deputies and their campaign aides as part of an island-wide crackdown on vote-buying. The 383 included 17 speakers and 14 deputy speakers of city and county councils.

PHILIPPINES

Unions Link Up

The Caucus for Labour Unity, a new trade-union alliance, was launched on May 1. Its constituents are the moderate Trade Union Congress of the Philippines, the largest federation in the country and three groups that had broken away from the leftwing Kilusang Mayo Uno.

INDONESIA

Marsinah Case Sentences

A district court in Surabaya sentenced three men to 12 years in jail each for the murder of labour activist Marsinah. Court officials said the three employees of the watch factory where the 23-year-old Marsinah worked had

taken part in her brutal killing. The sentenced men said their confessions were extracted under torture and plan to appeal their sentences.

Labour Activists Held

Three Indonesian labour activists, Amosi Telaumbanua, Soniman Lapau and Fatiwanolo Zega of the independent SBSI, or Indonesia Welfare Labour Union, were handed over to police after surrendering to the military. Security forces had been hunting for the alleged ringleaders of April's labour protests in the north Sumatran city of Medan, which flared into widespread rioting with an anti-Chinese tenor.

Criminal Round-Up

Jakarta's police chief vowed to clear criminals from the city's streets before a meeting of Asia-Pacific heads of state in November. Up to 16,700 soldiers and policemen have been scouring the city of 10 million people for three weeks in a controversial anti-crime sweep code-named "Operation Cleansing," arresting more than 700 people and leading to accusations that three people were killed trying to flee custody. Up to 5,000 alleged criminals were killed in an anti-crime sweep in the 1980s.

Indicators

Waiting time for telephone lines for selected Asian countries

Years from 1991



Source: International Telecommunications Union

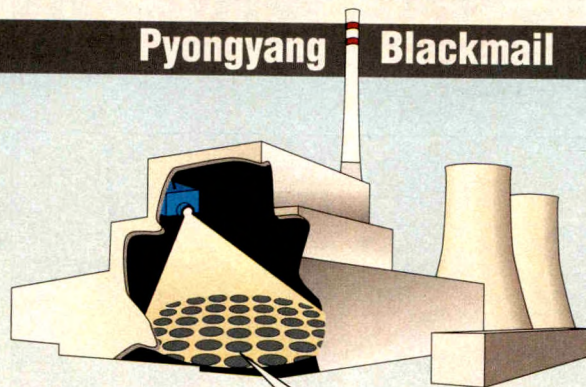
REGIONAL

Pyongyang Blackmail

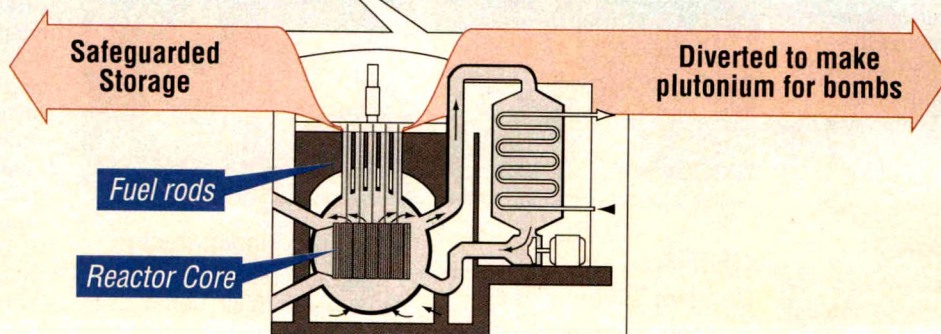
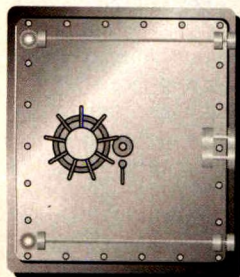
REVIEW GRAPHIC: GUYA'S LAM

IAEA's tough choice:
Forget the past and try to
stop new plutonium
production

or
Try to discover hidden
plutonium, but risk losing
any control over nuclear
programme



Yongbyon reactor



N O R T H K O R E A

Forgive and Forget?

Pyongyang's defiance poses a dilemma for the U.S., which may have to accept North Korea's nuclear capability in order to bring the isolated country into the international mainstream.

By Nayan Chanda in Hong Kong

In what could be the most dangerous move yet in its brinkmanship, North Korea is poised to unload spent fuel from its nuclear reactor without international supervision. Pyongyang's rejection of a compromise plan allowing staggered inspection of the refuelling process means the critical operation could be conducted in secrecy, in total disregard of the nuclear Non-Proliferation Treaty (NPT). An unmonitored refuelling operation would not only open the door to conversion of the spent fuel into plutonium for bombs, it could also destroy evidence of any similar, previous clandestine efforts. Without analysing the age of the fuel, the world would have no credible measure of plutonium stocks or the number of bombs Pyongyang may have managed to manufacture.

Ironically, North Korea's challenge to the non-proliferation regime comes just when the United States Government has bent over backward to accommodate

Pyongyang. Washington had advised the International Atomic Energy Agency (IAEA) not to insist on full access at the time of refuelling, which is required by the NPT, but merely to seek a promise of future access to the spent fuel. Following Pyongyang's rejection of the compromise formula, the IAEA, the United Nations nuclear watchdog, decided not to send its team of inspectors to Yongbyon — the site of North Korea's nuclear plant.

Pyongyang has said it would begin the two-month refuelling operation in early May. In keeping with its past record of brinkmanship, North Korea may well delay the refuelling and thus give the IAEA and U.S. diplomats a little more time to make further concessions. But in the meantime, it appears to be turning up the temperature. UN forces accused North Korea on May 2 of violating the 41-year-old armistice agreement by deploying more troops and weapons than permitted at the tense border with South Korea, prompting Seoul to put its armed forces on alert.

With U.S. Defence Secretary William Perry on the record stating that North Korea's new batch of spent fuel could produce five nuclear weapons, the stand-off with Pyongyang has reached its most dangerous point so far. "We are coming down to a denouement in the next month or two," says Leonard Spector, non-proliferation expert at the Carnegie Endowment for International Peace in Washington. "Either it will be a package deal in which the U.S. moves towards normalisation and provides economic benefits to North Korea in exchange for shutting down its nuclear programme, or it will be sanctions." In fact, Perry said on May 3 that Washington would ask the UN to consider sanctions if North Korea did not allow monitoring of the replacement of the fuel rods.

The latest twist in the year-long tug-of-war between the U.S. and North Korea over the latter's refusal to allow full nuclear inspections came in April, when the five-megawatt nuclear reactor in Yongbyon was shut down for reloading of its fuel. It was, as an IAEA official put it, a "key, milestone event" — the moment the West had been waiting for to resolve once and for all the suspicion about North Korea's clandestine bomb programme. The IAEA's excite-

ment over Pyongyang's invitation to observe the unloading was soon dampened by the news that the agency wouldn't be allowed to perform a key test: analysis of fuel samples to determine their age.

"What we are trying," IAEA spokesman David Kyd said by telephone from the agency's headquarters in Vienna, "is to find an agreement for actual examination of a few fuel rods selected at random to verify that it is the original core, and not something introduced between 1986 and now." By analysing the spent fuel, scientists can determine whether original fuel rods have been removed to produce plutonium and replaced with newer fuel. The examination could help resolve the mystery of a 100-day shutdown of the reactor in 1989, when U.S. intelligence believes fuel rods were taken out and reprocessed into enough weapons-grade plutonium to make two Nagasaki-sized bombs. North Korea denies that it has ever unloaded the core except to remove a small number of failed fuel elements. But if the present batch of spent fuel is not safeguarded, Western officials fear North Korea could turn it into enough plutonium for five more bombs — plutonium that the isolated country could use itself or export to the highest bidder.

Pyongyang, which has signed the NPT, is under treaty obligation to allow the IAEA to take samples to verify official declarations about fissile material. But according to U.S. diplomats and sources on Capitol Hill, fears that North Korea would unload fuel without any observers led the State Department to play down the legal rights of inspection, and to urge the IAEA to seek a deal giving agency inspectors access to the fuel rods at a later date. Even then, U.S. officials were far from certain that Pyongyang would keep a pledge to give the IAEA access to spent fuel. "I am not confident at all," a Clinton administration official who specialises in North Korean affairs told the REVIEW. "I assume it will become another bargaining chip. I think they will do it under the right circumstances, but they will extract a price for it."

The IAEA's Kyd confirmed that after the North Korean refusal to allow analysis of samples at the time of unloading, the UN agency sent a fresh proposal to Pyongyang. It asked that North Korea allow inspectors to make a random selection of spent fuel rods for separate storage under seal, and to guarantee the inspectors access to the rods at a later stage. "We are not talking about a distant date," Kyd stressed. The agency hoped it would be allowed to take the samples sometime this summer, after the resumption of high-level U.S.-North Korea talks. But North Korea has now said "no" to that proposal.

The North Koreans, according to the Carnegie Endowment's Spector, insist on splitting IAEA inspections into two categories: those aimed at verifying the continuity of safeguards, and others at determining the history of the nuclear programme. They have indicated that they are willing to allow the first, but will only permit the second after normalisation of relations with the U.S. Washington rejects that interpretation, but faced with a choice between bending the rules and losing North Korea completely, appears to be leaning towards the former. "The alternative would be to let North Korea reload fuel without the observers being there, and all the historical record of what the North Korea did would be lost forever," Spector said. "What we have here is blackmail."

Indeed, the Clinton administration has shown signs of being willing to go even further to keep North Korea in the game. Briefing specialists in Washington at the end of April, a senior administration offi-

"Given the past of North Korea's broken promises, I'll give the odds of continuous monitoring being respected as less than 20%. As to the North Koreans actually giving the IAEA access to the fuel for analysis, odds will be down to 5%," Niksch says.

But for Selig Harrison, a North Korea specialist at the Carnegie Endowment who has made several trips to Pyongyang, resolving the nuclear issue is a question of price. North Koreans have told him that only after signing a peace treaty with the U.S. will they allow the special inspection the IAEA demands. But Pyongyang's price for shutting down its plutonium reprocessing plant would be higher: a modern light-water reactor. Light-water reactors do not require the reprocessing of spent fuel and are thus less prone to diversion of plutonium. Such reactors cost about US\$3 billion each. "Clearly the North Koreans are prepared to cap their programme, but not to roll it back," he says.

As if to underline that it has the upper



North Korean leader Kim Il Sung; Clinton: new rules, new game.

cial indicated that the U.S. was now ready to lay a number of concrete measures on the table, including establishing "more normal relations" with North Korea in exchange for simultaneous moves on the nuclear issue. Sources said that apart from giving a timetable for normalisation and removing irritants like joint U.S.-South Korean military exercises, the U.S. could encourage Japan to provide war reparations and establish diplomatic ties with North Korea.

Clinton's accommodating approach to Pyongyang has come in for criticism. Larry Niksch, a Korea specialist at the Library of Congress, says the policy allows North Korea to keep on rewriting the rules. U.S. officials are basing their hopes of capping North Korea's nuclear programme on the "very weak" assumption that the IAEA will be allowed to continuously monitor the irradiated fuel from Yongbyon, he adds.

hand, Pyongyang unveiled a stunning new political demand just hours before U.S. and North Korean diplomats were to resume working-level dialogue on April 28 in New York. In a statement, Pyongyang accused the U.S. of turning the 1953 armistice agreement that ended the Korean War into a "useless sheet of paper" and demanded that a new peace treaty be signed. "I am a bit baffled why they issued the statement just a few hours before our talks," a U.S. official says. Last year on the eve of talks with the U.S., North Korea test-fired the Rodong-1 missile. That was an understandable reminder of Pyongyang's power, the official says, but raising an issue as fundamental as the armistice agreement "suggests to me somebody wants to get some new chips." Those bargaining chips would be in addition to the five nuclear bombs that Pyongyang's threatened refuelling may soon provide. ■

The China Game

Pro- and anti-MFN lobbies put pressure on Clinton

By Susumu Awanohara and
Irene Wu in Washington

As President Bill Clinton prepared to attend the funeral of former President Richard Nixon in California late last month, he was given a petition from the Business Coalition for United States-China Trade, signed by nearly 450 California-based companies, large and small. "Despite strong recovery elsewhere in the nation, California is still mired in recession . . . The loss of [China's] most-favoured-nation (MFN) trade status would be an additional devastating blow to the California economy," the petition said.

"We focused on California because Clinton absolutely needs the state for re-election," coalition official Suzi Carabelli explained. But a few days later, California Congresswoman Nancy Pelosi, commenting on Beijing's release of dissident prisoner Wang Juntao, said: "One crocus does not a spring make." A release of hundreds of prisoners was needed for the U.S. president to renew China's MFN, she added.

Clinton issued an executive order in May last year making this year's MFN renewal conditional on specific improvements in human rights. The order was also aimed at beginning "to move the MFN debate from the centre of our China policy," as Assistant Secretary of State Winston Lord put it at the time. But as the June 3 deadline approaches for Clinton's decision on whether the Chinese have met his conditions, the MFN debate still dominates Washington's China policy. That was evident at the end of April, when the administration postponed its decision on whether China was violating U.S. intellectual property rights. The decision was deferred, even though China is considered one of the most egregious offenders, for fear that sanctions against China's copyright and patent violations would spoil the chances of progress in the field of human rights.

As pressure mounts on Clinton from all sides of the MFN debate, U.S. officials are still hoping that the Chinese would do just enough to allow him to certify that his conditions have been met. But having run into China's obduracy, notably during Secretary of State Warren Christopher's visit to Beijing in March, the administration is bracing for the possibility that China will refuse to comply.

If that were the case, the big question is whether the U.S. should then totally revoke China's MFN — the implication of the executive order — or apply less devastating

sanctions to register its displeasure. The administration has started testing reactions to measures falling between a clean — and possibly permanent — renewal of China's MFN and its total revocation. But these "half measures" are not popular.

Senior officials told the REVIEW that top White House aides — national security adviser Anthony Lake, his deputy Samuel Berger and top economic adviser Robert Rubin — rather than Christopher and Lord, who are generally considered human rights hardliners, are now in charge of the MFN issue. But the final decision will be Clinton's, and the president is likely to wait



Lord: MFN off centre.

till the last minute to make it.

The seven conditions attached to renewal of China's MFN status involve Beijing granting freedom of emigration to Chinese citizens; stopping the export of goods that are produced by Chinese prison labour; adherence to the universal declaration of human rights; accounting for and releasing political and religious prisoners; providing for humane treatment of prisoners; maintaining the cultural and religious integrity of Tibet; and allowing freedom of international broadcasting into China.

Sensitive to the criticism that the administration has painted itself into a corner, Clinton officials stress that they are not asking a lot of Beijing. In fact, they say, Beijing has already met some of the conditions. In a recent presentation that disappointed human rights activists, White House pointman on human rights and democracy

Morton Halperin underlined that MFN was not such a special privilege. Quite a few trade partners enjoyed "better-than-MFN" treatment, he said, noting that "China will not be a perfect country even if it met all conditions in the executive order."

But officials insist that without "overall significant progress" on all the above conditions, Clinton will refuse to renew China's MFN. "It's a matter of law and the president is committed to it," according to Deputy Assistant Secretary of Defence Kent Wiedeman.

The application of selective sanctions is only one of the ideas floated by the administration either to punish China without overly disrupting trade or to reduce the linkage between trade and human rights for the future. Other suggestions include application of "Section 301" trade retaliation legislation to protest against human rights abuses, creating a bilateral human rights commission, issuing a more general executive order demanding human rights improvements and establishing a code of conduct for U.S. companies in China.

Not surprisingly, these half-measures are not very popular among those who have taken firm positions on the MFN issue one way or the other. Congressmen Gerald Solomon and Frank Wolf are among those who call for total MFN revocation. Former Acting Secretary of State Lawrence Eagleburger wants unconditional MFN renewal, saying partial revocation is "a typically useless compromise: it gets all the damage that you can get with a full MFN withdrawal." Many, however, have come around to the view that "partial sanctions for partial compliance is the only viable option left," as Asia Watch's Mike Jendzejczyk puts it.

Meanwhile, the lobbying of Clinton by various interest groups is reaching fever pitch. Hong Kong Chief Secretary Anson Chan came to town to re-emphasise the colony's wish to see unconditional MFN renewal, though her efforts apparently did little to change minds. Chan stressed that the proposed new measures such as targeting of state enterprises were "second-best alternatives" and would not achieve gains on the human rights front.

The White House meanwhile gave a boost to the Dalai Lama, with Clinton "joining" a discussion between the exiled Tibetan leader and Vice-President Albert Gore. It was a pointed gesture, given how little progress there has been on the Tibet item in Clinton's executive order. The White House said it "continues to urge high-level talks between the Chinese Government and the Dalai Lama . . . to resolve differences." For its part, Congress expressed displeasure with China by passing a non-binding resolution that "the Taiwan Relations Act takes precedence over statements of policy" and by moving forward on the creation of a Radio Free Asia. ■

Anti-Reform Club

Opposition and Senate defeat government bills

By Rodney Tasker in Bangkok

Putting Thailand on the road to fuller democracy is proving to be a laborious process. As the government found out last week, party politics still snares any attempt to tailor the constitution to a popular desire for more political freedom.

Seven government-sponsored constitutional amendments were sunk by a combination of opposition parties intent on toppling the ruling five-party coalition and a conservative Senate anxious to maintain its status. As a result, any constitutional changes will now be postponed until the end of the year at the earliest.

The move to amend the constitution is now in the hands of a joint committee of the House of Representatives and the Senate in which government MPs are outnumbered by opposition and appointed senators. No one knows how long the committee will take to fulfil its task, but as a senior member of Prime Minister Chuan Leekpai's Democrat Party says: "I would be surprised if the committee finishes its deliberations by October."

That is when the government hopes to push through its 1995 budget. It is important to Chuan's coalition that it remains in power until then, because spreading public money around the provinces is as crucial to the government's credibility as liberalising the constitution.

The government's defeat in the April 28-29 session last week could not have come at a worse time. In March, the opposition-Senate combination delivered the coalition a humiliating rebuff by passing an opposition-worded amendment to the constitution at its first reading — hence the joint parliamentary scrutiny committee. The Chuan government is also increasingly characterised in the press and political circles as a slow-moving administration, reneging on its democratic credentials and lacking any dynamic thrust.

Some political observers puzzle over the government's public image. They say that while Chuan certainly fails to satiate the Thais' yearning for a colourful, dynamic leader, he has done nothing wrong since he came to power in September 1992. Even Chuan's critics grudgingly give him credit for keeping the country on a democratic path, while blaming his spokesmen for failing to trumpet the government's achievements.

Seven constitutional amendments were at stake in last week's parliamentary ses-

sion. To the surprise of none, opposition MPs and most senators abstained from voting on any of the reforms. What interested observers was the fact that some senators who had taken part in the administration's humiliation in March decided to vote for some of the amendments, a reflection on government lobbying of the Senate during the interim period.

Military chiefs, who are members of the Senate, were also noticeable for their absence at voting time — presumably to avoid accusations that they were siding with the opposition to bring the government down.

The defeated amendments were designed to reform Thailand's political structure by expanding lower-house membership so that each MP represents 150,000 people; reducing the voting age from 20 to 18; appointing the leader of an opposition party with at least one fifth of the lower-

house membership as the opposition leader; reducing the number of candidates each party is required to field in a general election; requiring cabinet ministers to answer questions in parliament; giving wider powers to House committees; and establishing an administrative court to hear public complaints about abuse by government officials.

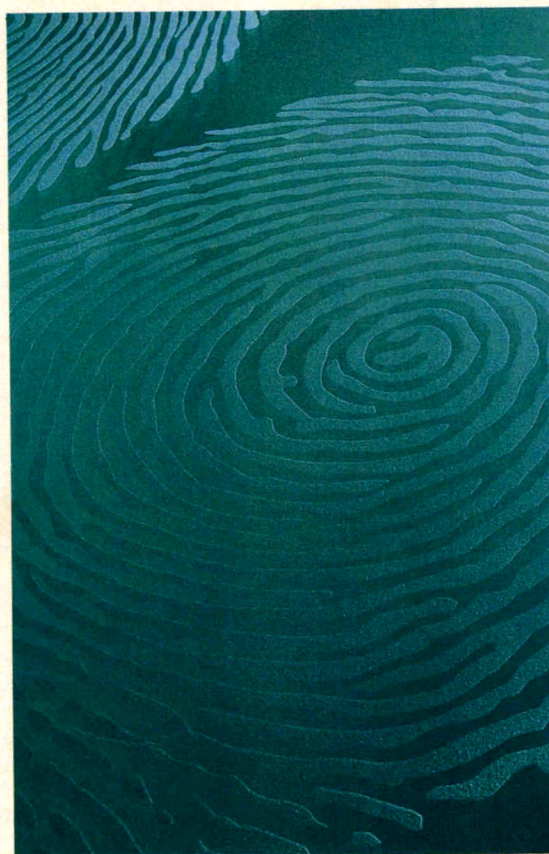
These amendments have now been thrown away. The opposition draft of amendments is still on the table, and being scrutinised by a special committee. One factor which concerns pro-democracy circles is that the draft is based on an earlier constitution which allows a non-elected politician to become prime minister. Unless the clause is changed, it will once again allow a military leader to

assume the premiership.

Analysts say the government will take its latest parliamentary embarrassment in its stride and wait for the conclusions of the constitutional scrutiny committee. Chuan has said that if he finds the committee's proposed amendments to be undemocratic he would be morally obliged to dissolve parliament and call a new election. But that crunch will only come at the end of the year.



Chuan: image problem.



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Holding Pattern

Hata's cabinet could be short-lived

By Charles Smith in Tokyo

In one sense it was just what the reformers had been aiming for. The cabinet line-up announced on April 28 by newly elected Prime Minister Tsutomu Hata stood out from its predecessors for its commitment to a set of clearly defined policies, ranging from modernising the tax system to support for possible United Nations sanctions against North Korea.

The trouble, as analysts were quick to point out, was that Hata might not stay in power long enough even to introduce legislation on the controversial tax issue — much less pass it through parliament.

"Hata's chances of surviving until the G7 summit in July depend on whether he can convince the opposition LDP [Liberal Democratic Party] that it is too soon to hold another general election," said a Western diplomat. "If he can't, the LDP — supported by the SDPJ [Social Democratic Party of Japan] — will certainly call for a vote of no-confidence against the government and

they will be almost bound to win."

Hata was left heading a minority government — his coalition controls a mere 182 of the 511 seats in the lower house of parliament — when the SDPJ defected hours after supporting him for the premiership during a parliamentary vote on April 25. The SDPJ's departure forced Hata to reallocate to other parties at least six seats in the 20-member cabinet which had originally been reserved for the socialists. But some critics suggested that the reallocation could have been achieved more equitably.

Hata's Japan Renewal Party holds a dominant position in the new cabinet, with eight portfolios including those of finance, agriculture and trade and industry. Another six posts went to the neo-Buddhist, Komei Party, while the small Democratic Socialist Party was allocated two portfolios, including the sensitive job of heading the defence agency. The only real outsider in the cabinet was Koji Kakizawa, an ex-LDP member who was made foreign minister. Kakizawa's appointment was viewed as a reward for his part in persuading a small group of MPs to defect from the former ruling party during the two weeks of political confusion that followed former Prime Minister Morihiro Hosokawa's resignation from the premiership in early April.

Hata's cabinet appointees gained high marks with the public for integrity and experience — no fewer than nine are veterans of previous cabinets. But the formation of a minority government could mean that Japan faces a long period of political uncertainty, suggested Masataka Kosaka, professor of international politics at Kyoto University, in an article in the *Japan Economic Journal*.

Kosaka went on to argue that Hata's wisest course would be to "play safe" by tackling essential tasks such as the passage of the fiscal 1994 budget, and the completion of political reform legislation initiated by the preceding Hosokawa government.

The budget and political reform are regarded as safe because all the opposition parties in parliament except for the communists have undertaken to cooperate in

these two areas. But some commentators wondered whether Hata would be able to stay in power long enough even to complete legislation already initiated by Hosokawa.

While the budget has already been tabled in parliament and should be enacted

by early June, completion of the political reform process depends on the delineation of new constituency boundaries by a specialist commission which started its work only in April. The commission may not finish its task until September, according to some estimates. If the work takes that long — and Hata could collapse before the political reform process is complete — Japan could face another general election under the old, pre-reform rules, suggests Kosaka.



Hata: pressing on regardless.

Hata's chances of staying on long enough to put through political reform depend, according to party insiders, on whether he can lure defectors from the LDP or the SDPJ to join the coalition before he is brought down by a no-confidence vote. A rightwing group within the SDPJ that was critical of the party's decision to move into opposition is regarded as one possible source of support.

But analysts note that even if Hata manages to attract defectors from other parties, he still runs the risk of losing some of his own supporters. The Japan New Party, the third-largest surviving coalition member with 32 seats in the lower house of parliament, is regarded as a dangerously weak link in Hata's defence system.

Founded in 1992 to champion the interests of consumers against industrial and other producer lobbies, former Prime Minister Hosokawa's Japan New Party held the middle ground between the leftist and rightist groups in the then-ruling coalition. But after Hosokawa resigned, he decided to re-position the party on the right of the coalition — a decision seen by his party members as an arbitrary one. Within a week of Hata's appointment as premier there were rumours that up to 15 New Party MPs were preparing to bolt the party — most of them in the direction of a new centre-left alliance reportedly being planned by the moderate wing of the SDPJ.

Hata's strategy in the face of possible threats to the continuance of his government appears to be to put a good face on the situation and to press on with the policy initiatives in the fields of tax reform and defence cooperation that he announced before taking over as prime minister. ■

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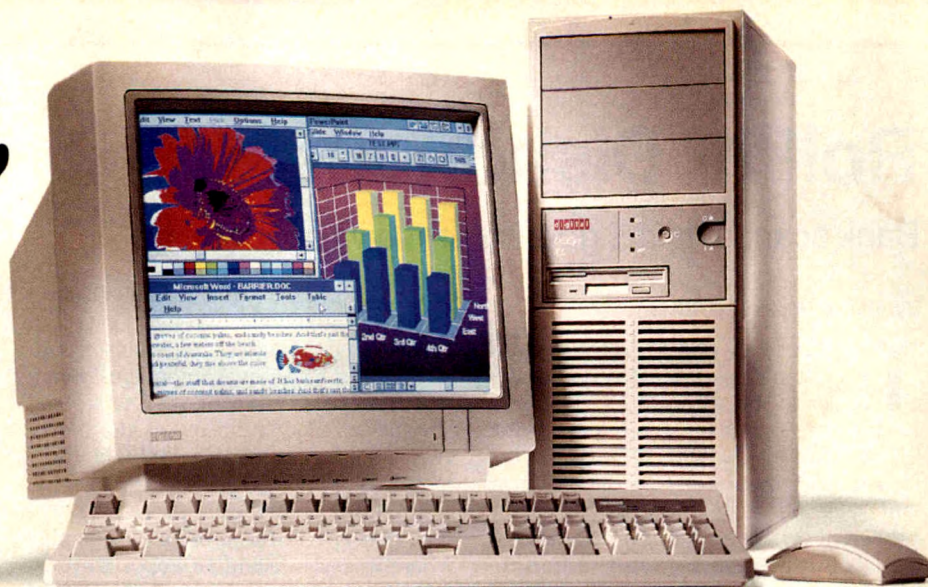
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Roll of Dishonour

Bank scandal taints government and opposition

By Ahmed Rashid in Lahore

The list reads like a Who's Who of Pakistan's political elite. The former chief of the army staff, Gen. Mirza Aslam Beg, figures on it. So does former Prime Minister Nawaz Sharif and the former chief minister of Sindh province, Jam Sadeq Ali. Altaf Hussain, leader of the powerful Muhajir Qaumi Movement (MQM) of Urdu-speaking post-Partition immigrants from India, is another big name. The list is much longer and includes top generals and both opposition and ruling-party politicians, all of whom must be wishing they had never heard of the Mehran Bank.

Set up only two years ago, the private bank is on the verge of collapse. Its chief operations officer, Younis Habib, was arrested on fraud charges in early April. Since then he has been singing like a canary about a massive slush fund that benefited top politicians from the ruling Pakistan People's Party (PPP), the opposition Muslim League and the powerful Inter-Services Intelligence (ISI) agency. The scandal involves "donations" — in the form of loans without collateral — to politicians, and has been dubbed "Mehrangate."

To a demoralised Pakistani public, the latest scandal is one more indicator of how the country's political elite has been milking the exchequer dry for its own ends. The scam takes on greater nastiness in the context of a shortage of development funds and claims by successive governments that they have been forced to initiate austerity programmes. The issue is adding more murk to a political system in near-paralysis because of the battle between Prime Minister Benazir Bhutto and opposition leader Sharif. This state of affairs is renewing fears that the army will start meddling in politics again.

In a bid to stem the tide of disclosures, Interior Minister Naseerullah Khan Babar admitted to parliament that the main beneficiary of the bank was Gen. Beg, who received Rs 140 million (US\$4.58 million). Beg had revealed earlier that some of that money was handed over to the ISI to be used in the 1990 elections. Bhutto has claimed that she lost the 1990 elections because they were rigged by the intelligence agency. Babar failed to divulge the names of several top PPP politicians who also received donations from the bank, but their names have littered the local press.

Mehrangate was only one of the problems Bhutto faced in her worst week since

coming to office six months ago. The opposition Muslim League began a long-term boycott of the National Assembly to protest against the government bulldozing through the election of the PPP's Aftab Sherpao as chief minister of the North-West Frontier Province (NWFP). The three-month-long political crisis in the province is still unresolved; the PPP possesses only a slim majority in the provincial assembly, where it is also facing an opposition boycott.

The government used the opposition boycott of the National Assembly to pass five bills — its first attempt at serious legislation — including one for the privatisation of the giant state-owned Water and



Leghari: seeking calm.

Power Development Authority. But the opposition, which controls the Senate, has promised to block the bills when they reach the upper house. "We will not allow any legislation through the Senate until the government changes its unconstitutional methods in the Frontier," said Sartaj Aziz, secretary-general of the Muslim League.

Opposition members in the Punjab provincial Assembly also began a boycott in sympathy with their colleagues in the NWFP. Thus legislative work and governance in the two largest provinces of the country have come to a complete standstill. Sharif said he has received letters of resignation from all his followers in the various provincial assemblies, paving the way for him to order a mass opposition resignation from the assemblies. "These resignations have been handed to me to use at any appropriate time," he said.

Though it is unlikely he will follow through on his threat, it too has contributed to talk of military intervention in politics.

In Punjab, Bhutto also faces a near-revolt from her own party. "She has paid no attention to the problems of Punjab or the PPP. Even if there were elections she would not find candidates to stand for her, so serious is the demoralisation," said a PPP leader in Punjab. Bhutto's options are limited because her control of Punjab depends on the support of a breakaway faction of the Muslim League led by Manzoor Wattoo, who is also chief minister.

In Bhutto's home province of Sindh, she faces a full-scale revolt by the rival MQM. Most of its top leaders courted arrest to protest against the two-year army presence in Karachi and Hyderabad, where most muhajirs live. At the start of May, the MQM protests became violent. Police and MQM militants turned some of the streets in the provincial capital of Karachi into free-fire zones as they blasted away at each other for hours with automatic weapons. At least 20 people were killed and 150 were wounded, and on May 2 the army was deployed to contain the violence. A strike paralysed the city, the country's commercial capital, for days.

During the past several months, the problems in Karachi have been compounded by the army. The military is virtually running Sindh and has gone out of its way to victimise the MQM, which it suspects of having links with Indian intelligence. The movement's principal leader, Altaf Hussain, fears for his life and is still in exile in London. However, the MQM has not endeared itself to the military or Sindhis by demanding that Sindh be divided into two parts — one for Sindhis and the other for Urdu-speaking muhajirs. And its open revolt against the military is giving jitters to the Pakistani establishment.

The opposition has also targeted President Farooq Leghari and has threatened to impeach him for his allegedly unconstitutional strong-arm methods in the NWFP. "If they want to impeach me let them go ahead," said Leghari. "But the current polarised and tense environment must cool down and it is important to let the institutions play their role."

Breaking the stalemate between the government and the opposition appears next to impossible, especially as higher taxes will be imposed in the budget to be presented on June 2. The opposition is expected to protest the taxes vociferously. Pakistan is fast approaching the situation of a year ago, when the political deadlock between Sharif and Bhutto forced the army to bring in a caretaker government and hold fresh elections. So far the army has kept to the back seat, but Pakistanis wonder how long it will stay there. ■

Changing Places

Apec foot-draggers push Asean free trade area

By Adam Schwarz in Bangkok

At the Asia-Pacific Economic Cooperation (Apec) summit in Seattle last November, one message came through loud and clear from the smaller and less-developed members: enough is enough. Those countries made it clear they were alarmed by the prospect of Apec's bigger members taking control of the organisation, and they fought successfully to stop moves aimed at expanding Apec's role, including a proposal to form a free trade area.

Six months later, some members of Asean, the group that most strongly opposed a more vigorous Apec, are finding the shoe is on the other foot. At two separate Asean meetings in late April, officials, businessmen and academics from Singapore, Malaysia and Thailand pushed for a more ambitious approach to Asean's own proposed free trade area, known as Afta. But delegates from the grouping's slowest-growing economies, Indonesia and the

Philippines, reacted coolly to the proposals, highlighting a serious division within Asean.

Afta was first announced at an Asean Summit in Singapore in January 1992. Its central aim was to improve the international competitiveness of member economies by lowering tariff rates on intra-Asean trade to less than 5% in 15 years. The lowering was to be achieved through a mechanism known as the Common Effective Preferential Tariff (CEPT). Although acknowledged at the time as an important breakthrough for Asean economic integration, Afta has to date satisfied few and disappointed many.

Part of the discontentment with Afta derives from the lack of planning and public debate that preceded its launching, a process one Thai delegate jokingly referred to as "Afta: Agree First, Talk After."

Noting the large number of commodities excluded from the Afta agreement and the lengthy 15-year time frame to bring down tariffs on those that are included,

Prof. Mohamed Ariff of the University of Malaya delivered a more succinct verdict: "Afta is no big deal," he said.

While others at the Bangkok meeting took a more charitable view of Afta's accomplishments, most agreed that Afta needs a thorough overhaul if it is to be of much use to its member states. The list of grievances aired by delegates included a lack of rules governing local content requirements, the absence of effective dispute-settlement procedures, Afta's exclusion of services and non-processed agricultural goods, a refusal to add investment concessions to the Afta menu, a failure to adequately address the issue of non-tariff barriers, and member governments' inability to adopt adjustment measures to ease the pain for industries likely to see their protection stripped away.

But for some Asean members, a cautious agenda for Afta is as far as they are willing to go. Although all Asean members agreed at the meeting in Malaysia to review Afta's 15-year time frame, resistance to a shorter period is expected from Indonesia and the Philippines. Many manufacturers in these countries continue to lobby against a freeing of intra-regional trade for fear of losing market share. "Even 15 years is too short for many Filipino companies," said Florian Albuero of the University of the Philippines. ■

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Top: Estrada; (bottom): Cojuangco; (right): oil-price protest.

PHILIPPINES

Paralysed by Politics

With worries over coups and insurgencies fading, the Philippines should finally be approaching economic take-off. But political stalemate is smothering the long-awaited recovery.

By Rigoberto Tiglao in Manila



"The time for take-off is now," President Fidel Ramos was telling local politicians in Parang, a town on the island of Mindanao in the country's far south. For the country, Ramos said, "the window of opportunity will be open only for so long, and it could close." An hour later, Ramos had changed his tune from lofty exhortation on national issues to a harangue about the petty bickering that he said was the chief cause of retarded development in their locality.

Reaction to the lecture was resigned. "Politics has not changed here, and never will," said Mohamad Fahad Pangandanan, mayor of a nearby town.

That glum assessment sums up much of the dilemma facing the Philippines today. The paralysing infighting Ramos

found in Mindanao is a nearly ubiquitous feature of Philippine society, plaguing organisations as diverse as the Communist Party — split asunder by disputes over policy and dogma — and the feuding Manila and Makati stock exchanges.

"It seems to me we spend so much time and waste so much energy attacking each other that the nation grinds to a dead stop," an exasperated columnist, Max Soliven, wrote recently, referring, of all things, to criticisms of the government's sponsorship of the Miss Universe pageant, scheduled to be held in Manila on May 21.

Few doubt that the country's period of

chronic political instability has ended. With the establishment of a relatively stable democracy, as Ramos never tires of repeating to potential investors, a unique opportunity exists to jump-start Asia's most famously laggard economy. And yet, as Ramos also repeats tirelessly, time is limited, and the obstacles the country's cigar-chomping president still faces can appear even more intractable than the guerilla insurgencies and attempted coups that plagued the country in the past.

The chief villains among the impediments to growth are without question the country's fractious, elite-dominated political institutions. Early this year, even the seemingly stable House of Representatives — where the president holds an overwhelming majority — was riven by an attempt to oust Ramos' lieutenant in the House, Speaker Jose de Venecia. And then there is the opposition-dominated Senate, widely perceived as obstructionist in the face of Ramos' economic-reform programme.

"The Senate is the stumbling block [to reforms], perhaps reflecting the lack of political will to overcome powerful vested

On Other Pages

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interests," noted a March 1994 country paper by Chase Manhattan Bank, part of a study evaluating whether the bank should set up a full-service branch in the country. "Even when legislation is finally passed, the process is excruciatingly slow," it added.

There is little doubt either that Ramos' window of opportunity is closing fast. "The first half of 1994 will be a critical test of the country's ability and willingness to implement necessary [economic reform] measures," the Chase Manhattan Bank study noted. "Measures not passed by Congress in the first half of the year probably have little chance, as beyond mid-year attention will start to focus on the 1995 election for all of the House of Representatives, half of the Senate, and all other local officials," the bank study pointed out.

With an even more obstructionist Senate likely to be in place after the 1995 elections, Ramos would have little chance of making headway on his reform proposals. And with Ramos limited to one term, the nightmare scenario for some Filipinos and foreign investors foresees the triumphant election in 1998 of the popular vice-president, Joseph Estrada. Most observers — even Senate President Edgardo Angara — think that the flamboyant Estrada, a former star of action movies, will win hands-down in 1998, not only because of his popularity but because of the backing of Eduardo Cojuangco, an old-style power-broker and prominent opponent of Ramos' reforms.

There has been some glimmer of light in recent weeks, with Congress apparently finally preparing to pass several of the revenue bills Ramos has been asking for since last year. The most important piece of legislation, the expansion of a 10% value-added tax (VAT) to include service industries that would raise P8.3 billion (US\$306 million) annually, looks sure to pass soon.

Rather than being a hopeful sign, how-

ever, the passage of the VAT bill could be the last gasp of cooperation between the Senate and Congress, analysts say, particularly if the economy doesn't soon show signs of benefiting from the revenue-raising measures. Furthermore, the legislative wrangling over the VAT bill turned out to be a classic instance of narrowly self-interested Philippine politics, with Ramos forced to sweeten the House, theoretically under his control, with monetary inducements before it would agree to pass the legislation he wanted.

According to a report by the Philippine Centre for Investigative Journalism, a respected media group, Congress finally passed the bill only after being assured by Ramos that he would release P9.5 billion in so-called "congressional initiative funds." These are budgetary allocations which Congress members can allocate to pet projects in their districts.

In the country's business community, the view that the Senate is to blame for the political gridlock is widespread. Its members are perceived as concerned only with furthering their ambitions to become president some day by playing to the gallery of public opinion, often through unfounded charges against the Ramos administration.

A survey of the Makati Business Club's 163 members ranked the Senate as the Philippines' second-worst institution, next to its traffic-management agencies. A January 1994 overview of the country by the local office of the Hong Kong-based Baring Securities was similarly critical, putting the Senate in its list of political risks: "The Senate remains a bulwark of congressional obstruction to the momentum of presidential reform initiatives."

However unpopular it is with Makati, the Senate may have succeeded in tapping into the country's populist political culture. A December 1993 survey by the Social Weather Stations, an independent polling

firm, gave the Senate a 30% "margin of satisfaction." That figure was higher than that given to the national government or the Supreme Court, and was pushed up by high satisfaction ratings among poorer Filipinos.

What worsened the Senate's relationship with Ramos, and made senators extremely distrustful of the president, was the move made in January by House Speaker de Venecia to campaign for a constitutional amendment for a unicameral legislature. "We were trying to build up a national consensus last year when we organised that summit of the legislative and executive branches to agree on an economic reform programme," Senate President Edgardo Angara says. "But when this year started, what do they [De Venecia and Ramos' other officials] do? They moved to abolish us," he says. De Venecia justified his move on grounds that the country's development would be permanently stalled by the current political gridlock, which he blamed on the two-chamber legislature.

De Venecia's move to install a unicameral body was interpreted by most senators as an attempt by Ramos to extend his term, which ends in 1998. The senators suspect that Ramos aims to become prime minister of the proposed unicameral body.

It is also a prospect that is worrying foreign investors. "Not only would the debate again be a distraction to their legislative work," says the head of a foreign investor association. "A unicameral legislature would again be a new thing, and investors naturally would want to see first how it works out," he added. Wittingly or unwittingly, Ramos may also have fanned suspicions that he wants to remain in office beyond 1998 by the way he has staffed his administration. Senators point out that Ramos has proved surprisingly partisan in his appointments, despite being constitu-

A Ramos Scorecard

Pluses	
Promises	Result
Dismantling monopolies	Telecommunications industry opened. Cement manufacturers warned. Bank liberalisation bill
Electricity shortages	October 1994 target to meet full demand. New plants built
Privatisation	Government shares in Petron, Philippine Shipyard and Oriental Petroleum sold in 1993
Revenue bills	VAT and stock transaction tax bills passed
Population control	In high gear
Peace with rebels	Talks with MNLF proceeding; those with communists and military rebels suspended. General amnesty proclaimed



Minuses	
Promises	Result
Imposition of oil levy	Rescinded after public outcry
Light Rail Transit	Financiers balking due to senators' suit in Supreme Court claiming it is illegal
Lottery	Supreme Court issues temporary restraining order because of suit filed by civic organisation and three senators
Anti-tax-evasion campaign	Trial court issues injunction against filing of tax-fraud case against Lucio Tan. Court cases against others still pending
2.5% export tax	So far deferred due to protest from exporters' groups
Law and order	Incidence of kidnappings rises in first four months of 1994. Court clears two ranking police officers accused of being members of kidnapping gang

tionally barred from running for re-election. The president, his critics argue, has appointed even the most obscure members of his Lakas-NUCD party to government posts, even to such prestigious corporate positions in state holdings such as San Miguel Corp., Philippine Long Distance Telephone Co., and Philippine Airlines.

"At least in the time of Marcos," Senator Blas Ople notes, "he recruited technocrats." "Under Ramos," he says, "the thing to ask is not whether this appointee is qualified, but rather what role he played during Ramos' election campaign."

Ramos dismisses such criticisms, telling the REVIEW in an interview: "If I'm partisan, point out a Philippine president who has given his vice-president from another party a major cabinet role." Ramos was referring to Estrada, who heads the Presidential Anti-Crime Commission. "I appoint these people not because they are Lakas-NUCD, but because these are people I can trust."

To many Filipinos, the political gridlock arising from an opposition Senate and unruly, bickering politicians is a depressingly familiar sight: two decades ago, then President Ferdinand Marcos used exactly such a situation as an excuse to establish himself as dictator. Ironically, the reaction to and the struggle against Marcos' one-man rule has itself created many of the



Guingona: democracy is expensive.

political factors that now make the country so difficult to govern. First, because of the "people-power" phenomenon culminating in the 1986 uprising that ejected Marcos, a strong populist political culture has been entrenched.

Ramos' momentum in putting the country's finances in order has already been slowed by the strength of such populist pressure, most notably in February when he reversed a decision to impose an oil-price levy. "Economic reality drove oil prices up. Political expediency brought them down," notes Guillermo Luz, execu-

tive director of the businessmen's organization, the Makati Business Club. Whether or not the levy made economic sense in the first place, for businessmen and the world financial community it was a warning signal that Ramos may not have the resoluteness necessary to press ahead with unpopular economic reforms in the face of vocal opposition on the streets.

A second consequence of the Philippines' anti-Marcos experience has been the restoration of Congress' powerful role and the shortening, from four to three years, of the legislators' terms of office. These two provisions of the 1987 constitution were intended to ensure that a tight check on the presidency, which Marcos had been able to transform into a dictatorship.

However, as Ramos found out on his expedition to Mindanao, one of the most noticeable results of the restoration of democracy has been to set politicians squabbling over government resources which they can then distribute among grateful voters to ensure their own re-elections.

With the Ramos administration still struggling to maintain its reform momentum, partisan politics has already intensified in anticipation of the June 1995 elections. "Most of my colleagues are concentrating on ensuring that they have the campaign funds for the elections, and they're

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now distracted from their legislative work," says one congressman. "This early, it's already the talk of the town," Ramos' executive secretary and former Senator Teofisto Guingona complains. "Democracy is very costly, very retarding to progress," he says.

Elections are not only turning out to be a barrier to reform, they are also breeding corruption. "Democracy means one person, one vote. But how do you make of a situation here in which one man, paid properly, can deliver a thousand votes?" says Senator Anna Dominique Coseteng.

While acknowledging such difficulties, Ramos remains confident that his emphasis on conciliation and consensus building will ultimately triumph over the innate fractiousness of Philippine politics. "I would like to believe that we have gradually built up social cohesion," Ramos says. "We are getting people who were bitter political rivals to get together, and realise that there's now a common goal."

And, in what may be a sign that his approach is working, even Ramos' critics concede that the president has been pushing hard for reconciliation. "To his credit, Ramos, unlike his predecessor, has been talking to the Senate a lot, and for a military man used only to giving or receiving orders, he's learning fast the importance of consensual politics," Senator Ople says. ■

Pride and Privilege



For Senate President Edgardo Angara, the root cause of the stalemate in Philippine politics is easily identifiable. "It is the greed of the elite, whether political or economic," he says. "They are not generous enough to give up some of their benefits, and they are highly protective of their advantages."

Agreement on the accuracy of that assessment is growing among a diverse group that includes such unlikely ideological bedfellows as the World Bank, the Philippine Left, former coup plotters, academics, and even President Fidel Ramos and his closest advisers.

One recently published book, *Ties That Bind*, points out that 145 of the 200 House of Representatives members belong to decades-old political clans and oligarchic families.

"Everywhere else in the region, traditional elites have been weakened — by colonial wars for liberation, by American occupation, by civil war or

communist revolution," National Security Adviser Jose Almonte, widely seen as the president's chief ideological adviser, said in a recent speech.

"The Philippines is the exception. The elite here still is East Asia's most powerful oligarchy," he pointed out. Almonte then argued that the Philippine state's weakness — its ineffectual bureaucracy and its lack of autonomy — is hardly unexpected with such a powerful elite.

And that doesn't seem to be merely polemical elite-bashing. An internal April 1993 paper by a ranking World Bank economist — intended as an input for the bank's official, 724-page 1993 report on the Philippine economy — sounds in parts startlingly like a leftist manifesto: "The basic pattern of the political structure, dominated by a powerful elite controlling economic, social and governmental bodies . . . has its roots in the unequal distribution of land, income and wealth in the Philippines and in the coexistence of mass poverty with sizable wealth." ■ Rigoberto Tiglao



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PHILIPPINES

Constructive Criticism

Senate President Angara defends his role



A key figure in the confrontation between President Fidel Ramos and the Senate has been **Edgardo Angara**, the body's mild mannered but fiercely independent president. Correspondent **Rigoberto Tiglao** discussed the issues surrounding the face off between Ramos and the senator.

How do you assess the Senate's relationship with President Ramos and his administration?

We have been supportive of his economic-policy agenda, and we agree with him that there is a need to open up the economy, to bring in competition and remove the artificial hurdles so that there'll be more economic activity, more efficiency. If he fails, every one of us in the country fails.

However, Ramos has done little in his own backyard. The biggest deterrent to growth is the bureaucracy. He had promised to streamline it. But he hasn't. Except

for one or two officials, he doesn't have a good economic team. They often submit to us conflicting data. This is a part of the budget-deficit problem. Ramos' officials have in many instances told the Congress that this tax measure would raise this much. But after we've passed it, the revenues collected are way below their estimates.

What do you think is holding back Ramos from undertaking these reforms you say are necessary?

He is the first Philippine president allowed only one term under the 1987 constitution. For good reason. We don't want the president to be partisan. We don't want him to be concerned with re-election so that he'll do the right thing, no matter how unpopular it is.

Yet Ramos is very partisan, appointing his party's people all over the government and its corporations. He must be the first president who goes out every weekend to the provinces, swearing in politicians into his party. In a sense, Ramos is a product of



Angara: supportive but concerned.

anti-traditional politics. Ironically, he's turning out to be the best example of a traditional politician, because of his partisanship.

Are you saying that this early in his administration, Ramos is intent on having another term, and this agenda is distracting him?

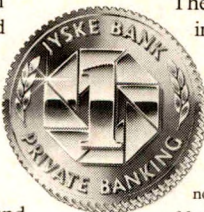
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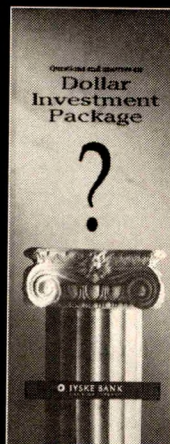
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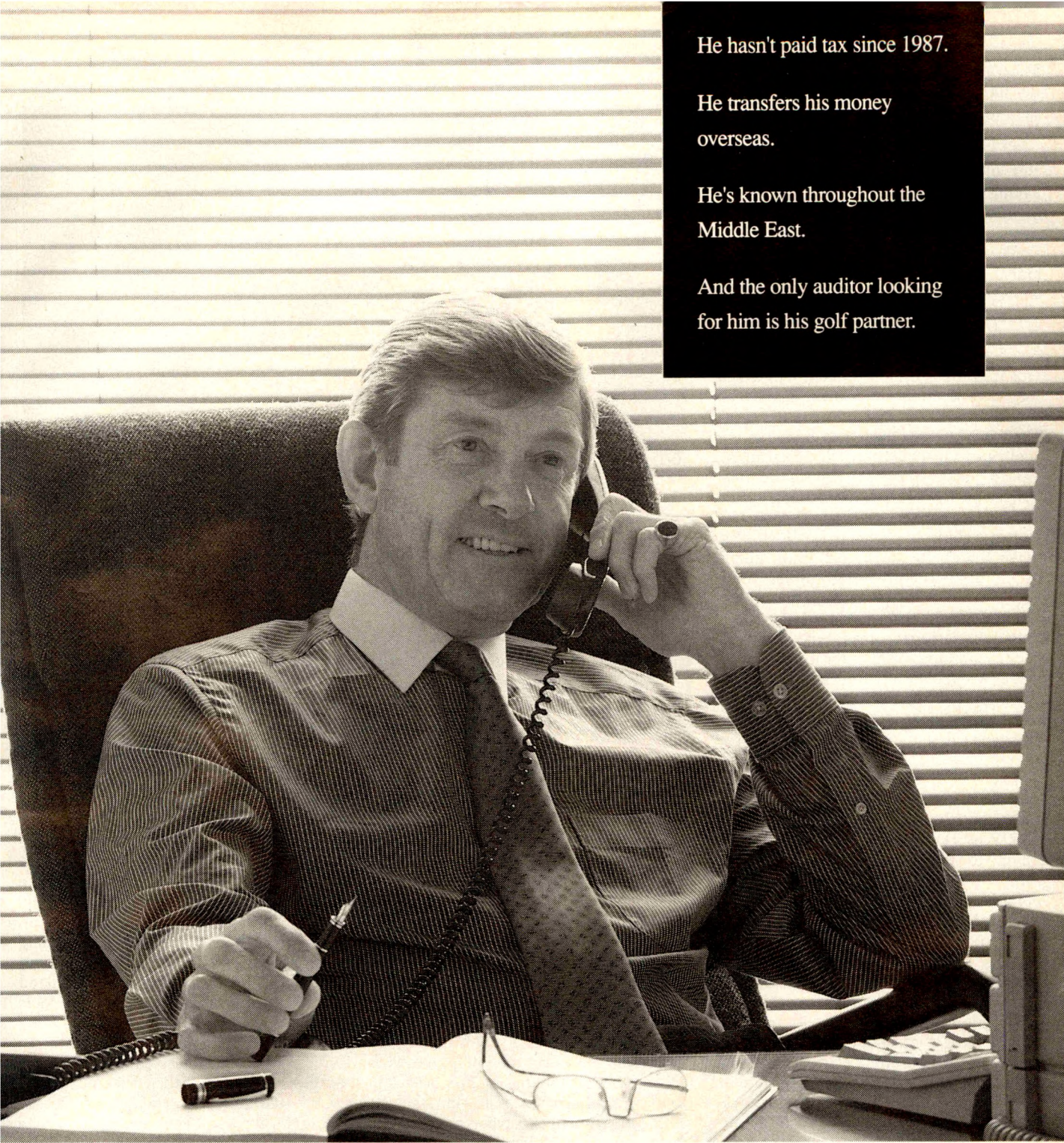
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But many in the business community feel that the biggest hurdle to economic-policy reforms in the country has been the Senate's obstructionism vis-à-vis the president's legislative agenda.

On the contrary, Ramos is lucky. The Senate ought not to be cooperating with him in terms of legislative efforts. Why? Because the Senate was really elected as an opposition. Fifteen out of the 23 senators belong to opposition parties, including me. So by all standards of political conduct, the Senate shouldn't be cooperating with him.

However, just because we're more critical doesn't mean that we're obstructionist. When you look at it on the overall basis, we've been supportive of essential economic reforms. When he asked for the power-shortage bill, we passed it. When he asked for P25 billion [US\$1 billion] in funds for the rehabilitation of the areas devastated by the Mt. Pinatubo eruption, we passed it within one week. We haven't withheld legislative support when we thought it was really necessary. But we're cautious about the tax measures Ramos has been requesting. We can't convince people to pay more money if they see that their taxes are not being spent properly.

And I don't have doubts that the Senate will pass those new tax bills he's asking for before the current session ends. But we have to do our work, study these bills carefully. For the House, it's understandable that they don't evaluate the bills sent by



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Malacanang closely. It [the House] is under Ramos' control: look at how the president's intervention prevented [Jose] de Venecia from being unseated as speaker.

But still, Ramos' economic officials are saying if these new taxes are not passed swiftly, the country's budget deficit will derail an economic recovery.

That's the argument of the executive branch. But it's not been doing its work in collecting taxes that are already in the books. Our tax collection is less than 15% of GNP, compared to the 17% to 19% in other Asean countries. We've passed several bills the executive branch had asked for, such as establishing a big taxpayers' unit in the Bureau of Internal Revenue. Despite all these, there has been no improvement in collections. If Malacanang agreed to our proposal to cut the 1994 budget by P17 billion, we wouldn't have this deficit problem.

Why should we keep raising taxes, when there's so much corruption in the public infrastructure programme? Some P25 billion had been authorised by Congress for the rehabilitation of the Mt. Pintatubo-damaged areas. But the executive has nothing to show for it. Ramos' officials keep blaming the Senate for not passing the laws they say they need. This country has 11,000 statutes in its books. If that was all that mattered, we'd be the most progressive country in the region.

There are 200 government corporations. Some of them are profitable, some of them are barnacles relying on taxpayers' subsidies. Why isn't Ramos privatising or dissolving them? He's just been packing these firms with his party people. He even appointed partymates to the new central bank, which the law we passed intended to be an independent body.

Do you think the country's political system is conducive to economic growth?

One of our biggest problems is that we do not have a functioning party system. Except for the communist party, there is no party that really has a programme of government and an ideology to speak of. What we have are factions and individuals.

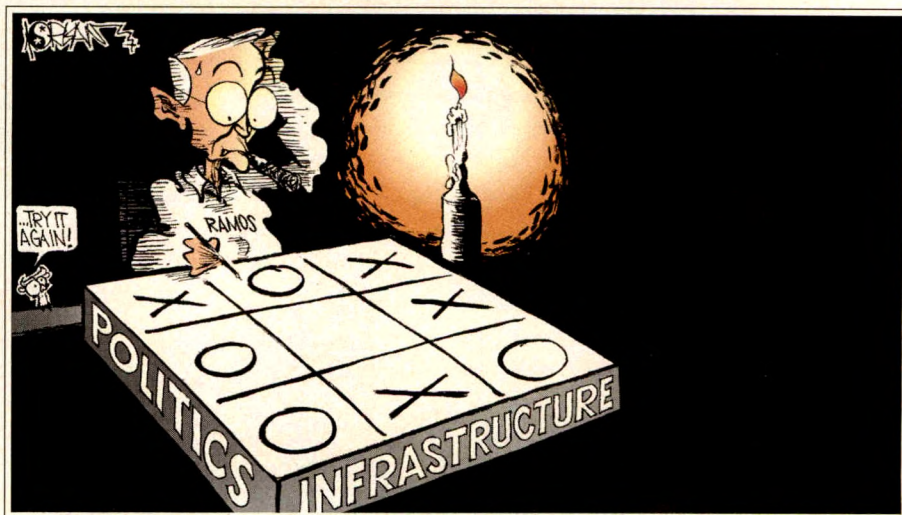
But isn't that what Ramos is also saying in his anti-monopoly campaign?

But he's setting up new cartels headed by his people. For instance, the lotto — headed by [party mate Raul] Manglapus.

With no popular political leader emerging from your party or from other parties, and if Ramos indeed, as he's said so many times, doesn't seek an extension of his term, many people think Vice-President Joseph Estrada will be the next Philippine president. Do you think so too?

Yes, that's 100% sure. ■

PHILIPPINES



A Long Way to Go

Despite signs of strength, economy remains sluggish



"I don't buy all that pessimism, coming especially from the political front. The indications are quite different on the ground," says President Fidel Ramos.

He quickly rattles off major foreign investment plans in the country — even by traditionally cautious Japanese firms such as Sanyo and Mitsui. Manila tycoons John Gokongwei, Henry Sy and the Ayala family have been on an investment blitz. San Miguel Corp., the country's biggest industrial concern, surprised everybody when it estimated that its first quarter earnings rose 40% over the same period last year. And nearly all of its members polled by the Makati Business Club said they believed the country's GNP growth in 1994 would exceed the 2.3% rate posted last year.

Does all this mean the Philippines is finally on the roll, that the country is back in business? Perhaps not quite yet. Analysts say the investment expansion has not been broad enough, with bankers reporting little increase in loan demand. Recovery is still a forecast and not a reality, a fact the Asian Development Bank highlighted in its 1994 Asian Development Outlook, saying that the country "showed signs of recovery with low but positive growth rates."

"It's just that investment confidence hasn't reached critical mass," Citibank Philippine branch head William Ferguson says. Why not? There are three major reasons. One is the fact that the country needs to run faster just to stay in place. At a 2.3% GNP growth rate, per capita income actually dipped slightly in 1993, falling 0.3% because of population growth. For com-

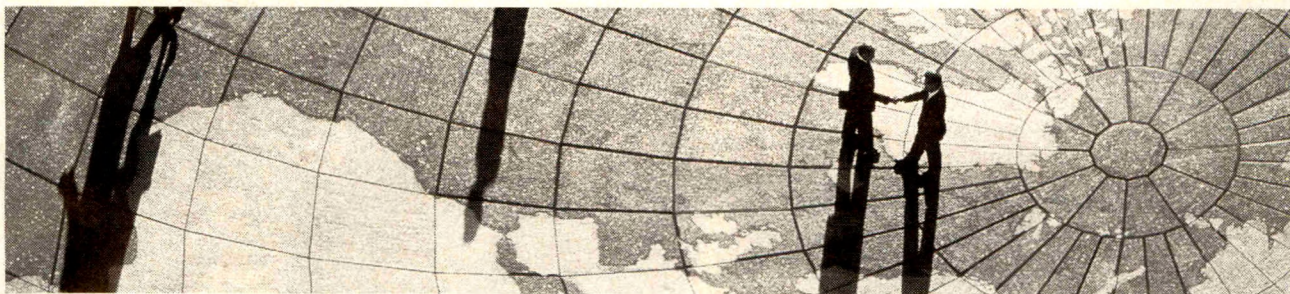
panies that means smaller domestic markets. It also means an increased risk of a revival of discontent the country's still-active communist rebels could exploit.

The economy will have to run much, much faster to avoid falling farther behind its neighbours. Just to reach Thailand's 1993 per capita GNP of US\$1,961 in five years' time (Ramos' target is just US\$1,000), the country's wealth per person must grow 20% annually, which translates into double-digit growth rates. Most recent estimates made by the government see only a 5.5% average annual GNP growth from 1994 to 1998. Newly industrialising countries (NICs) achieved that status by posting growth rates of 8-9% in the 1970s and 1980s, while relative laggards like Thailand and Malaysia still managed a respectable 7.2% rate.

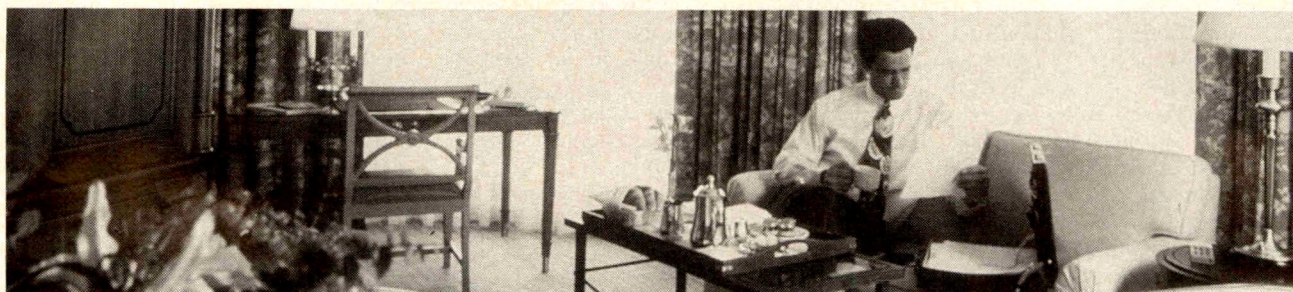
The second reason: only recently — with political instability, natural disasters, and severe power deficiencies out of the way — has there been a realisation that the country's economic situation is worse than had been thought. Conventional wisdom was that the Philippines had been doing quite well until Ferdinand Marcos took over as president in 1965. Eight years after he was forced out of office, the thesis that Marcos can be blamed for most of the economy's ills no longer holds water.

"We were once the second most dynamic economy in Asia." That statement is delusive nostalgia," Filipino columnist Danilo Mariano writes. "The economy (before the 1970s) remained healthy, but only for so long as the prices of sugar and copra (the country's main exports) could sustain the ostentatious lifestyles of a few hundred families, with scraps left over for the rest of

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the population," Mariano notes.

There is plenty of economic evidence to back up that view. An April 1993 internal paper by a senior World Bank economist — tellingly titled *The Philippines: An East Asian Debacle* — points out: "The evidence shows an economy which has been stagnant for a long period of time (even before the late 1970s and early 1980s), rather than a fast-growing economy which only ran into trouble in the turbulent 1980s."

One piece of evidence the paper cited was recent economic studies showing that high growth rates reported in the 1950s and 1960s were illusory because they were mostly due to exploitation of resources such as forests, fisheries, and upland agriculture. The price for such unthinking use of non-renewable resources is the enormous environmental problems the country faces today. "Populations of a million or more coastal fishermen have depleted the near-shore fisheries," the paper noted. "As many as 18 million upland farmers have cleared residual forests, enough to make soil erosion a major environmental problem."

The bank study pointed out that the country's sharply divided economy — an impoverished rural sector and a tiny, relatively well-off urban sector — has changed little, in contrast to Asia's NICs. Worse, it noted, what little change there was in terms of rural-urban population has only worsened conditions in the agricultural sector.

Rather than the classic shift from rural jobs to high-value-added industrial work, the report stated "people have moved from low-productivity jobs in agriculture to low productivity jobs in the informal services sector. The *sari-sari* store, small convenience stores ubiquitous in the countryside and towns, and domestic household help have become the main refuge for surplus agricultural sector." In short, the Philippines problem is not simply making up for lost time. It may not even have joined the race, yet.

Lastly, despite the fact that economic policies have on paper been nearly as open as the NICs and the country's neighbours in the region, in reality governments have signally failed to live up to their policy commitments. "Two essential ingredients, which have been stressed in other East Asian countries but which have been lacking in the Philippines," a voluminous 1993 World Bank country report emphasised, "are consistency of policy and a sense of national purpose." That helps to explain why a momentary stumble such as Ramos' flip-flop on the oil-levy issue was so much a shock to donor institutions such as the IMF.

Ultimately, the bank study was blunt about the core problem facing the country: "Sustained growth at even the moderate rates of 5-6% depends on an improvement in governance." ■ **Rigoberto Tiglao**

CENTRAL ASIA

Chinese Challenge

Li Peng visit highlights Beijing's growing role in region

By Ahmed Rashid

When the Central Asian republics broke off from the Soviet empire in 1991, those trying to guess their new orientation looked every which way but east. Many observers expected Turkey or Iran, with their ethnic, cultural and historic links with the region, to rapidly enter the post-Soviet vacuum. But today, while Russia still exerts the most economic and military leverage on the ex-Soviet republics, it is China that is emerging as the main challenger to Moscow's influence in the region.

Proof that the Central Asians are beginning to turn east was evident in the extremely cordial receptions accorded Chinese Premier Li Peng during his swing through Turkmenistan, Uzbekistan, Kazakhstan and Kirgizstan. Unlike in his dealings with Western leaders, Li had few problems developing a rapport with his Central Asian counterparts. He and they share the same desire to reap the fruits of economic liberalisation without any sacrifice of political control.

Some irritants persist. Soon after he arrived in the Kazakh capital of Alma Ata on April 25, Li heard vociferous protests from officially sanctioned groups about Chinese nuclear testing at Lop Nor, only a few hundred kilometres east of the border. Another test is expected at the end of May, and environmentalists charge that radiation levels are high in the border regions. Beijing, in turn, has protested about the sanctuary Kazakhstan and Kirgizstan provide to militant Uighurs seeking independence for China's north-western territory of Xinjiang.

It was not the problems, however, but the potential for mutual benefit that took centre-stage during Li's visit. Since the fall of the Soviet Union, China has become the second-largest trading partner for most of the republics. The Central Asians wanted China to cut economic deals with them. In return, they promised to help turn the tide of Islamic fundamentalism that threatens China and them.

Li and Kazakh President Nursultan Nazarbayev signed a border accord, and

Alma Ata scrapped all its restrictions on cross-border transport. In Turkmenistan, Li and President Saparmurad Niyazov agreed on feasibility studies for a new railway across Central Asia and a pipeline across China that would carry the region's oil. Trade deals were signed in every capital, with Beijing providing liberal credits.

Though no security agreements were sealed during Li's tour, security issues were high on the agenda. Central Asia is now Beijing's most volatile frontier. The civil wars in Tajikistan and Afghanistan are being waged on the region's periphery, and Islamic fundamentalism plays a major role in both of them. Beijing sees an escalating danger of arms and ideology from these regions infecting its own restive Muslims in Xinjiang with the secessionist virus.

In the Uzbek capital of Tashkent, his first

port of call, Li issued a benevolent message. "In this region China does not have selfish interests and would never presume to use force to expand its sphere of influence," he told a hall packed with officials. "We are going to be your friends and good neighbours forever," he added to cheers. He promised that China's border disputes with the region would only be settled through negotiations. Beijing

claims a large tract of land in Gorno Badakhshan in Tajikistan.

Uzbek President Karimov, who faces political problems at home and growing tensions with Russia, replied that "the Uzbeks have realised that China is a great country and provides great potential for stability in Central Asia." Karimov then praised China for preventing separatist feelings from growing in the region. China and Uzbekistan signed four bilateral agreements that will increase trade further. They include a Chinese loan and the inauguration of air-freight operations between the two countries. China will buy metals and 20,000 tonnes of Uzbek cotton this year.

Li claimed the proposed oil pipeline would be "the project of the century." The Chinese also promised to buy Turkmen cotton. But the pipeline project, estimated to cost some US\$20 billion, might remain a pipedream because of the financing problems involved. ■



Li Peng: friendly message.



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Gouri Agtey Athale is a freelance journalist based in Pune, India.

The Industrialists' Lament

By Gouri Agtey Athale

For 47 years, India's licence-raj has protected Indian industries from competition in world markets. That much is well known. What is not as well known is that it has also protected them from domestic competition, leaving them as inefficient at home as they are abroad.

The opening of the Indian market to foreign competition consequently has caused more than the usual heartburn and controversy. "We are not afraid of competition. Nor do we want protection," says Rahul Bajaj, chairman and managing director of Bajaj Auto and spokesman for the informal "Bombay group" of industrialists who have objected to some points in the government's liberalisation. "We've been misunderstood."

The industrialists say they want a level playing field. They have a point. Citing the examples of the East Asian tigers, they note that these countries liberalised internally first, ensuring that their companies had survived fierce competition at home before the doors were opened to foreign competitors. While the Indian industrialists recognise that such changes as have occurred are irreversible and admit that India's foreign-exchange crisis in July 1991 precluded such a sequencing, they would like the Rao government to take some steps to help them compete. The kind of protectionism they want is far from unfair: they ask simply that foreign companies not enjoy better terms than Indian ones.

Nor are they blind to some of the more obvious pretensions of the developing world. For all the talk about free and open markets during the Gatt talks, it took more than seven long years to reach an agreement on the Uruguay Round, largely because of the efforts of the developed world to protect certain markets. Western Europe, for example, is reluctant to open its agricultural market even to its struggling East European neighbours. And the United States allows its own companies to use its dumping laws to punish many foreign companies simply for the crime of producing something at a lower cost than their American competitors.

In India things are likewise not as open as they seem, but increasingly in the other direction. Businessmen here, for example,

point to differences between the rules and regulations applied to foreign concerns and those applied to domestic ones, a case in point being equity holdings. Until recently, Indians were not allowed to hold 51% equity in their companies, whereas foreign companies seeking a toe-hold in the Indian market were. Now that the policy has changed, the problem of capital has arisen because domestic companies face other restrictions in borrowing. Even the capital-gains tax will now be levied at two levels: 20% for foreigners against 30% for Indian companies.

Indians also cite the import-quota restrictions imposed by industrialised countries, most notably on textiles. These quotas will remain in force for another 10 years, during which time foreign concerns

India's businessmen ask simply that foreign companies not enjoy better terms than they do

will continue to benefit from their protection. In this context, is it not unreasonable for Indian industrialists to ask why similar quotas not be applied in India for the same time?

Certainly the lure of India's middle class — a market of 150-200 million consumers — is strong and the foreign interest in tapping it undeniable. Yet locals are justly upset about a government that lends a ready ear to the complaints of foreign companies, but is deaf to the demands of its domestic companies to relax some of the controls that govern them. "The question to be asked is who made us inefficient," says Bajaj.

The group says their desire to protect Indian industry is not merely a question of

inefficiency or competitiveness. They note that at least 200-250 of the 300 companies that have an annual turnover of Rs 500 million (US\$15.9 million) should remain in Indian hands if only because so many of their customers are Indians. What this means is that such industries have to take substantially more care of India and the Indian customer than the foreign manufacturer. For the latter, the Indian buyer would be a small cog in the larger scheme of things.

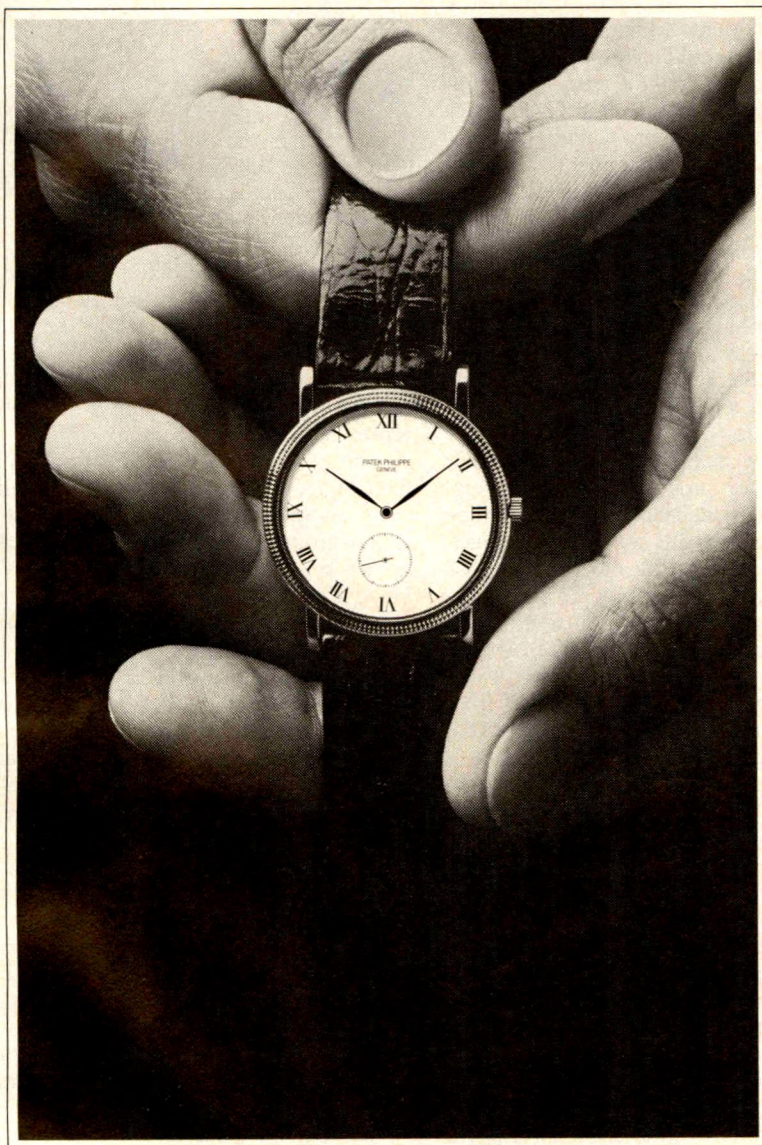
The phrase "level playing field" may have become a dirty one in this context, but the case for such protection remains strong. Indian industry needs capital and technology; it is not one or the other. They want a balance between the two. In areas where India does not have the technology needed, of course, even the industrialists accept that the government will have to offer sweeteners. But why, they ask, must this be so where it is easily available? If anything, fears have only escalated with the recent signing of the latest Gatt round. Indian businessmen suspect that in India, Gatt will work against the development of domestic alternatives.

This is a feeling that has political support from rightwing parties, who favour internal liberalisation yet are apprehensive about the prospect of "technological imperialism" entering through the back door. This support for technological independence cuts across party lines and has supporters spanning the entire political spectrum — from the extreme left to the extreme right — and it has now found an outlet in the programme for *Swadeshi* (Indian-made).

In short, Indian industry worries that market leaders who, in their quest for finance, have sought out foreign partners may wind up at best ancillary units or find themselves banished to the fringes of a niche market. The example of the car industry looms large. Those in favour of liberalisation doubtless would argue that the market will take care of it all. But what kind of free market is it where a government makes it easier for foreigners to do business and offers them better terms than its own countrymen?

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New Alignments

Merger of parties strengthens pro-democracy forces

By Louise do Rosario in Hong Kong

Politics has come a long way in Hong Kong. Four years ago, it was taboo even to mention the idea of forming a political party. China, to which Hong Kong reverts in 1997, had said it did not approve. But pro-democracy activists led by barrister Martin Lee defied Beijing and formed the colony's first formal party, the United Democrats. A year later, in the first direct polls for the territory's legislature, the party won by a landslide, taking 14 of the 18 seats up for election.

Lee and his allies are once again at the cutting edge of local politics, this time with the announcement in April that the United Democrats and a smaller party, Meeting Point, will merge in October to form the Democratic Party. Meeting Point's members are mainly academics and young businessmen, and their tie-up with the United Democrats will result in the colony's largest political party. The Democratic Party bears all the features of its constituents, and

its manifesto says it will seek "to further unite democratic forces in Hong Kong" and strive for "a high degree of autonomy and an open, democratic government."

The merger could also spark off a wave of realignments across the territory's political spectrum, cleaving Hong Kong's political community into pro-China conservatives on the one hand and liberals demanding more democracy from Beijing on the other. The trend intensified with the arrival in 1992 of Governor Chris Patten, whose efforts to grant more democracy to Hong Kong forced political parties to come up with a clear stand for or against political reform. Increasingly, says Meeting Point's secretary-general, Lo Chi-kin, those who straddle the fence on the issue "will be crushed."

One party that professes to be neither pro-China nor pro-Britain is the Liberal Party, whose political orientation could be described as broadly conservative. Meeting Point's Lo says the Liberal Party has ended up with a reputation for indecisiveness and inconsistency "because it tries to please too many people." But its chairman, Allen Lee, rejects that charge, saying it was not true that the party had "moved from being pro-Britain to pro-China" and that his main concerns were the interests of Hong Kong.

Currently, there are fewer than 10 active political groups in Hong Kong. Even the bigger ones have only a few hundred members and small budgets. All say they work for the interests of Hong Kong, but have different ways of dealing with the territory's future master, China. Some, such as the United Democrats, have taken a clearly confrontational stance. Others, such as the Democratic Alliance for the Betterment of Hong Kong, profess unmistakably pro-China platforms.

One upcoming battle between the two groups is the district-board election scheduled for September 1994. District boards deal with community-level affairs only, but their election will be an important rehearsal for the more important Legislative Council (Legco) election next year. For the moment, the liberals seem to have the upper hand. The Democratic Party will have 17 seats in the 60-member legislature, the biggest block of votes for a party.

Norman Miners, professor of politics at the University of Hong Kong, sees the United Democrats-Meeting Point merger as "a reassertion of the essential unity of democratic forces in Hong Kong." At least two smaller liberal parties have expressed



Allen Lee: denying shift.

interest in joining the new party. Meeting Point's Lo thinks his party's merger with the United Democrats is just a beginning, and sees room for more parties in general. "Party politics in Hong Kong is still at an embryonic stage. No single party could represent all of Hong Kong."

The conservatives are busily pushing their own agenda. Two days after the liberals' merger was announced, one pro-China group of businessmen banded together to run for upcoming elections. The Hong Kong Progressive Alliance, as their group is called, has 52 members, most of whom sit on China's official advisory boards. Five, including Henry Cheng, managing director of New World Development, are in the property business. The alliance says it seeks "social harmony" and "communication with China," which is said to have close connections with the group.

Meanwhile, the Hong Kong Chamber of Commerce, another increasingly pro-China group, has booted out prominent liberal Jimmy McGregor from its executive board. The outspoken McGregor, who has served the chamber for decades, has become unpopular within it because "businessmen don't like him to be so radical," says Jeremiah Wong, a lecturer in politics at the Chinese University of Hong Kong.

The United Democrats-Meeting Point merger will give pro-democracy groups in Legco a more concerted voice. In the new one-vote, one-seat system that will be in play in the September poll, small players like Meeting Point would have suffered as they lack the resources to take on better-organised parties such as the United Democrats. As for the United Democrats, their popularity has worn off slightly. With the economic boom, anti-Chinese sentiments have subsided and the fiercely anti-Beijing United Democrats, who have been labelled "subversive" by Beijing, are beginning to look inflexible. "It's a party without a post-1997 strategy," says a City Polytechnic economist.



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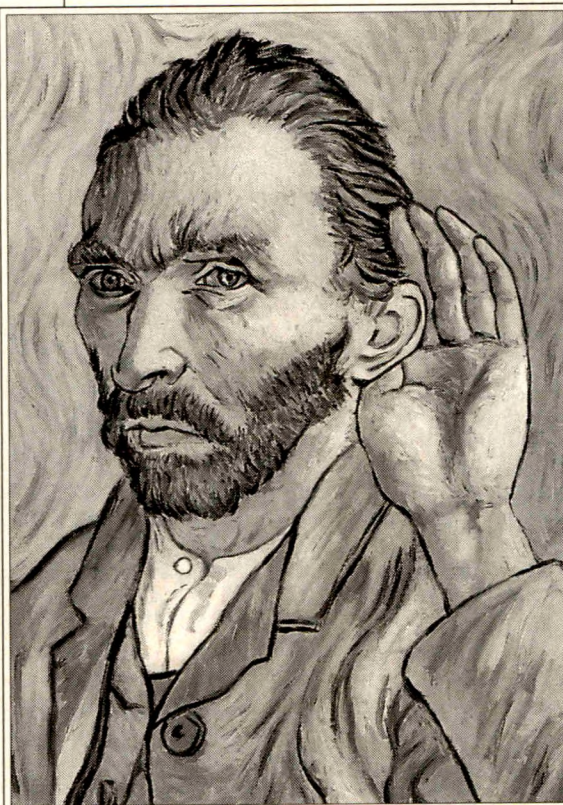
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It may be useful to set some modest targets. The successful achievement of something tangible, even if largely symbolic, would add momentum to the process

Discussing Regional Security

Asean is moving cautiously to institute new forum

Only a few days ago, Vietnam termed China's contract with an American company to explore for oil in a disputed area of the South China Sea a "serious escalation." The company, Crestone Energy, had said it would sink exploratory wells under the protection of the Chinese navy.

At about the same time, another dispute erupted when the Cambodian government accused Thailand of aiding and abetting the Khmer Rouge rebels. It followed by calling for United Nations military observers to monitor the Thai-Cambodian border. Meanwhile, North Korea continued to frustrate attempts by the International Atomic Energy Agency to conduct a thorough inspection of its nuclear facilities at Yongbyon.

Clearly, the region has no shortage of security problems. While there may be no wars going on at the moment, there exists many a potential flashpoint.

It is to prevent the eruption of such crises that the first international forum to discuss security issues in the Asia-Pacific region will be launched in July at the Asean Region Forum (ARF) in Bangkok. The forum will include not only the six members of Asean (Thailand, Indonesia, Malaysia, the Philippines, Singapore and Brunei) but also its seven dialogue partners (Australia, the European Union, Canada, Japan, South Korea, New Zealand and the United States), its three observers (Vietnam, Laos and Papua New Guinea) as well as China and Russia.

The launching of ARF is an extraordinary achievement for Asean, providing as it does a place to discuss issues before they turn into crises. The secret of Asean's success over the years has been to proceed on any issue only after extensive consultation among its members, and to move only at a speed acceptable to all — not most — of its members. Arguably, this is better than setting deadlines and issuing ultimatums.

At the least, it has allowed its members to deal harmoniously with one another despite overlapping territorial claims and disputes over fishing and other resources. With ARF having to deal with even more contentious issues involving all the world's major players, Asean understandably is exercising great care so that all involved will see this as a long-term process for reducing tension and not something geared towards the resolution of one or two specific problems.

At a meeting in the resort town of Pattaya in the last week of April, senior officials of the six Asean countries discussed procedural matters related to ARF. One major proposal was to invite the secretary-general of the UN, Boutros Boutros-Ghali, to take part, thus providing a link between the Asean security discussions and the world body.

The officials also decided to apply the Asean formula of action by consensus to ARF, which is scheduled to be held on July 25. So careful were they to avoid contentious issues and not trample on the sensitivities of any participant that they have decided against trying to secure agreement on any issue. The main goal is simply to ensure that all participants feel comfortable. Indeed, the thinking now is that there will not even be an agenda. The informal format will be similar to that of the Blake Island meeting of Apec leaders last November, presided over by American President Bill Clinton. Following that precedent, the meeting will close without issuing a joint communiqué, only with a statement from its chairman, Foreign Minister Prasong Soonsiri of Thailand, the host country.

The very fact that all the major players will sit down and talk to each other about security issues is in itself a major achievement. It is also true that the important thing is to launch the process rather than to try to solve any specific problem. But there is also a danger that too little will be achieved at this first meeting, which is only meant to last for three hours. With 18 people taking part, some of whom will be using interpreters, that leaves little time for substantive discussions.

It may also be useful, therefore, for Asean to consider setting some modest targets, even for the first meeting. True, a failure to attain an ambitious goal may well be a setback for the infant ARF. Against this, however, the successful achievement of something tangible, even if largely symbolic, would add momentum to the process.

A tangible goal might be the endorsement by all participants of the purposes and principles of Asean's Treaty of Amity and Cooperation, whose provisions are high-minded and unexceptionable and, in fact, have already been endorsed by the UN. It could also be the signing of a communique (prepared well in advance) to show that the major powers involved in the region can agree on a general set of principles. Thought will also have to be given to institutionalise ARF by setting up machinery to ensure that the dialogue on security matters continues during the year at lower levels rather than lying dormant for 12 months before being picked up for another three hours.

Asean senior officials will be meeting again in late May, this time with representatives of all the other participating nations, to prepare for ARF. It should be possible at that time to identify relatively uncontentious issues that all participants might comfortably discuss — probably not about the resolution of specific disputes between nations but how to build up trust in one another and increase transparency, especially in military measures.

And if, at that time, it is decided to draft a statement of principles to which all participants can put their names, there will still be plenty of time to agree on a choice of words.



Prasong Soonsiri.

The image is a composite of two photographs. The left half features a light-colored wooden baseball bat and a white baseball with red stitching, set against a solid red background. The right half features a wooden cricket bat and a red cricket ball with white stitching, set against a dark green background. A white rectangular box with a black border is centered horizontally across the two images, containing the text "AND EVERYWHERE IN BETWEEN".

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TRAVELLERS' TALES

LET THAT BE A LESSON: Mike Smith, former Hong Kong-based executive for IBM, was in the Bamboo Bar of the Continental Hotel in Ho Chi Minh City, Vietnam. He sipped a beer and read the *International Herald Tribune*, "rented" at Dong 2,000 (20 U.S. cents) an hour.

He noticed that the waitress, dressed in a white silk Ao Dai costume split to the chest over silk trousers, seemed to be doing some homework between visits to his table to top up his glass of 333 beer.

Mike, ever a gentleman, offered his services and ended up helping her with her English exercises. "You can practise more by meeting me outside," he said, giving her a card with his hotel and room number on it. "A long shot," he thought to himself.

The following morning at eight o'clock his phone rang. It was the waitress, whose name was Ms. Mai. She had decided to accept his offer of English lessons, she said, and wanted to meet him.

A few minutes later, the amazed visitor was in a cyclo (a device apparently the result of miscegenation between a wheelbar-

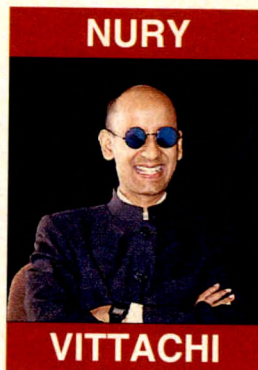
row and a bicycle), following the young lady in another cyclo. He wasn't sure what to expect. Breakfast, possibly?

He was escorted into an old building and bundled into a room. Suddenly, he was facing 50 students (picture on right), who stood up and chanted as one: "Good morning, Dr. Smith." From then on, he was in the spotlight, an impromptu language lecturer.

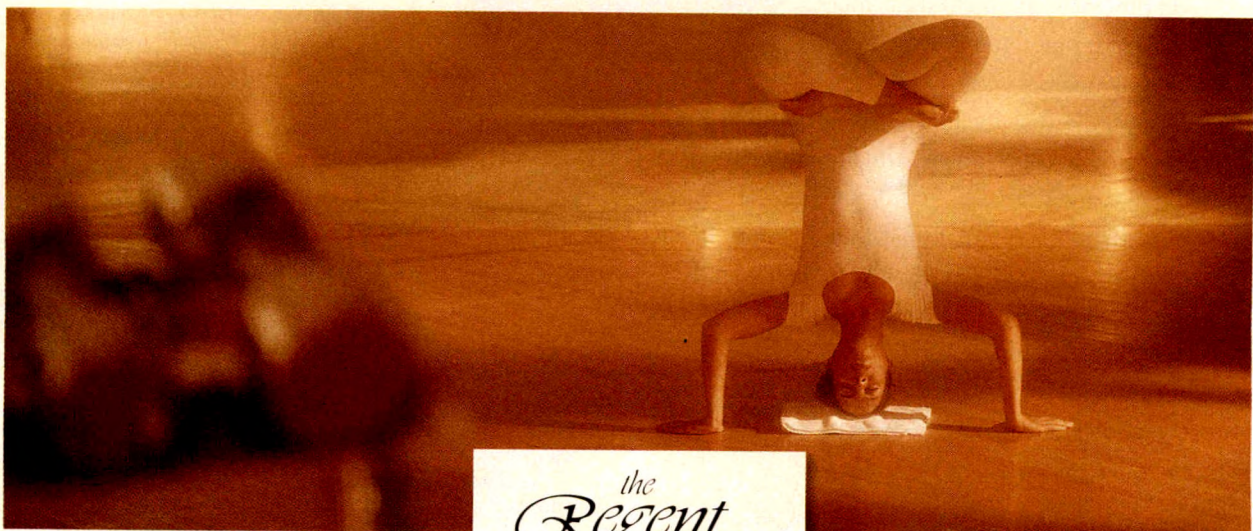
Mike commented later: "It was not what I initially had in mind regarding Ms.

Mai, but fun, nonetheless."

I just hope you never meet a brain surgeon doing some homework in a bar, Mike.



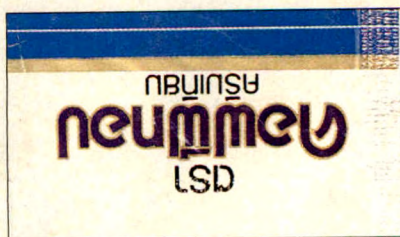
AND THE BEAT GOES ON: David Newell of Chiang Mai tells me a Thai newspaper on April 26 noted "the canning of illegal Thai workers in Singapore in 1990." This makes beating youngsters with a big stick sound reasonable. Talking of brats, I saw a female yuplet in Hong Kong last week with a T-shirt saying: "Money can't buy everything. That's why there's credit cards."



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HIGH TEA: Little packets of white substance apparently labelled "LSD" were found in Krabi, Thailand, by David O'Rear of Hong Kong. Drugs? No. It turned out to be Thai script upside down. The full Thai title translates as "Non-dairy coffee creamer." I hope nobody mainlined it.

MOUSECARRIAGE OF JUSTICE: Lunchtime at the zoo in Kaohsiung, Taiwan. A zookeeper approaches a cage containing six snakes, which they are keeping as evidence in a lawsuit against animal smugglers. He throws a live mouse into the cage. But the mouse kills the first snake. And the second. And the third. Eventually, the tiny creature kills and eats all six snakes. All that remains is some snake skins and a fat mouse. The evidence is gone.

Anyway, this is the version of events the keepers insisted was true. "However, they said they were worried the court

would not accept their story," a Taiwanese newspaper reported recently, in a cutting sent in by David Oakley of Kaohsiung.

If the keepers get the sack, they could always write screenplays for *Walt Disney*.

ALL OVER THE PLACE: What a nice, clear road-sign this is. Ray Bundschuh Jr. of the American Embassy in Kuala Lumpur spotted it just outside the airport in Phuket. If the same sign said "Rome" at least it would have had some metaphorical significance. One of my guiding principles in life comes from cartoon character Dennis the Menace: "If you don't care where you are, you can never be lost."



Presentation of Plagues

The Hon. Raymond Chan, MP
Secretary of State (Asia-Pacific)

PLAGIARIST: James Reynolds, a Vancouver lawyer, was intrigued by the programme of the recent gala dinner of the Richmond Asian Pacific Business Association, *excerpt above*.

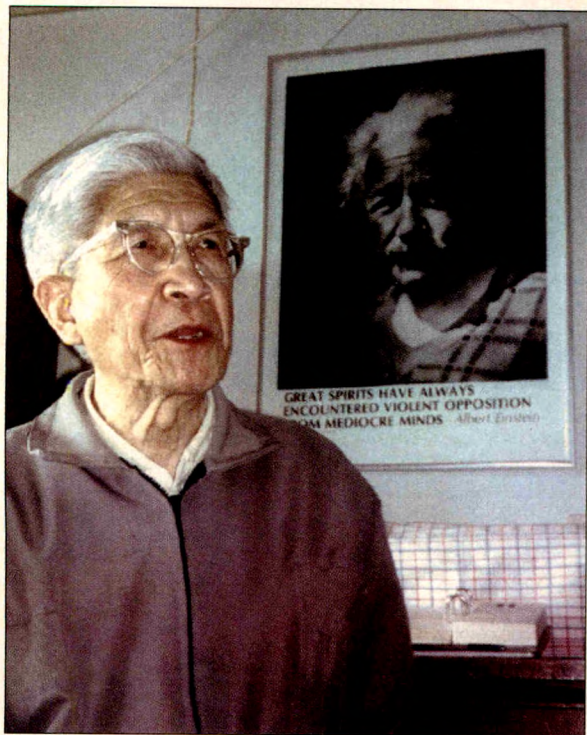
James said: "Even as one who has become used to the ever increasing role of government in the lives of Canadians, it is still a surprise to read that the Federal government has assumed the role of God."

CADDISH BEHAVIOUR: Christopher Boyd of Kuala Lumpur sent me an advertisement from a company called StereoCAD: "SEE and FEEL your DESIGNS in 'LIVE' 3-D ANIMATION before spending THOUSANDS of RINGGIT in RECONSTRUCTION! . . . Be it your office, your kitchen, your bathroom or even a screw, you can easily walk through your designs interactively." Hmm. Maybe this virtual reality stuff is more fun than I thought. ■

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Chinese intellectual Xu Liangying believes the educated elite will rise again; student protesters during the May Fourth Movement of 1919.

INTELLECTUALS

Troubled Waters

China's intellectual community finds itself threatened. Can it recover?

By Kari Huus

May 4 is always an awkward anniversary for Beijing's leaders. In the press and on TV, they embrace the May Fourth Movement of 1919, one of the most important periods in the formation of modern China. The annual celebration honours the courage of intellectual leaders who rebelled against foreign domination, oppressive traditions and corrupt government.

But while May 4 should be a day of pride, it has also become something else: a cause for concern. At the same time that authorities in Beijing praise yesteryear's intellectuals for paving the way towards a new order, they dispatch secret police to Tiananmen Square to prevent modern-day thinkers from doing precisely the same. To many observers of China, the ban demonstrates the extent to which the status of the country's intellectuals, once revered, has declined. Says Yu Yingshi, a historian at Princeton University: "The Chinese intellectual has been marginalised to the edges of society. [He] is at a low ebb."

Operating from the fringe is not a position with which China's intellectuals — technically defined as those with a university degree — are accustomed. Traditionally, they have performed key political and social roles in society, carrying the special burden of acting as moral voice for the government. But decades of repression by the Communist Party, a lack of government funding for universities and think tanks and, increasingly, China's headlong rush into the marketplace have combined to push today's educated class to a depth from which some scholars wonder whether it can recover.

To be sure, the decline is not fully unexpected. Periods of cooperation between scholars and the government have always been followed by periods of repression. During Mao Zedong's reign, intellectuals were called upon to devote themselves to the revolution, only to be persecuted during his political campaigns. Similarly, after his death in 1976, they were rehabilitated, but silenced again, especially during the crackdown that began in 1989.

Although Beijing has released some po-

litical prisoners in recent months under pressure from human-rights lobbyists in the West, there is no clear signal that the status of intellectuals will soon change. Indeed, as Beijing has released some activists, it has arrested and even re-arrested others. At the same time, it has tightened its grip on the media, censoring award-winning Chinese films such as *Blue Kite* and banning critical books such as Jia Ping'ao's 1993 novel *Defunct Capital*. "Journals [in the humanities and social sciences] are as quiet as they were during the Cultural Revolution," adds Princeton's Yu.

If China's intellectuals are to rebound from their current internal exile, they will most likely have to do so without help from their counterparts in the United States, some of whom continue to press for change in China, but are seen as ineffectual by mainland thinkers. Indeed, efforts to get re-involved on the mainland tend to end disastrously, as in the case of poet Bei Ling.

Thirty-four years old, Bei returned to his native China from the U.S. in November for the first time in five years to launch *Tendency Quarterly*, a Chinese journal

whose contributors proposed to "build a new cultural environment in a society of impoverished values." *TQ's* contents — including works by Vaclav Havel, Bo Yang and Aleksandr Solzhenitsyn — irritated communist authorities. Tracked down by police, Bei was questioned for three days before he was allowed to leave the country; *TQ's* first 1,000 copies were confiscated. As he left for Taiwan in search of funding last February, Bei was still protesting. "It is an intellectual's responsibility to doubt, criticise and question the government. Who else will do it?"

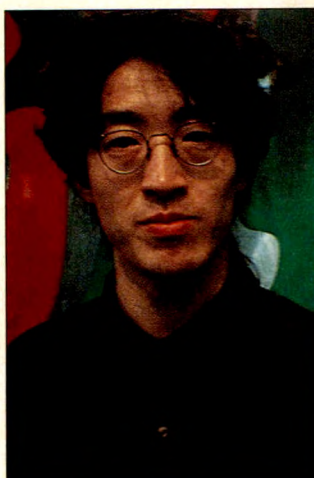
As economic reform takes hold in China, that is a good question. In addition to political repression, the rapidly expanding free market is attracting more and more scholars from the world of academia and public service. The examples are numerous: a Sino-Soviet scholar who two years ago was drafting a book on the collapse of the U.S.S.R., presumably to prevent the same in China, now translates business deals between Chinese and Russian traders. Similarly, a law professor who in 1989 went on a hunger strike to protest the treatment of his students now wears designer suits and handles company contract law. "If there were another movement today," he concedes, "I would stay home. I'm not interested in the government, and it is not interested in me."

Beyond containment from the Communist Party and the lure of the market economy, China's intellectual community is under threat from another front. Government funding for education, especially the liberal arts, is drying up. According to a recent *China Daily* article, universities can afford only about half as many books as they could in the mid-1980s. In late February, the president of the Chinese Academy of Social Sciences announced that even his elite institution would be streamlined.

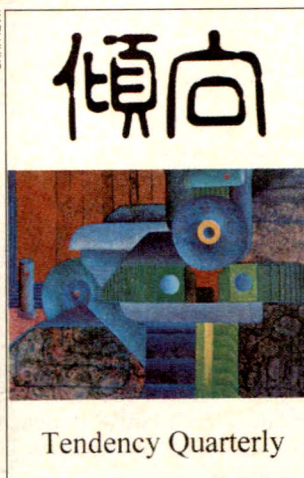
Moreover, in relative terms, thinking for a living is less and less attractive. In the 1950s and 1960s, the salary for a university professor was about 10 times that of a physical labourer. Today, a professor's pay is equal at best.

Despite the fall in status that intellectuals have experienced, the government wants them in its ranks, especially those who are technocrats rather than philosophers. To that end, authorities have been courting China's 6.1 million "intellectuals," offering bonuses and better job placement services for students who return from overseas training.

There are a few notable cases where this strategy has worked. But brain drain is still the overall trend. The majority of 50,000 students now



Poet Bei Ling and his banned publication.



enrolled in U.S. universities are not expected to return to China. According to a survey reported in the *Hong Kong Economic Daily*, it is nearly impossible to transfer talented young people into Chinese Government departments. In fact, Beijing has its hands full just trying to hold on to those intellectuals who are already there: according to the survey, 76% of functionaries who wanted to leave their posts in 1992 were under 40 years old and 90% held at least a bachelor's degree.

To draw more of the educated elite into government service, some regions have experimented with extravagant incentive schemes. The government in Zhuhai, one of southern China's special economic zones, tried awarding Audi sedans and new flats to intellectuals who had made outstanding contributions. But in the final analysis, China's coffers are no match for the private sector, where foreign companies pay about five times the average government salary. Chinese educated in the West who choose to return do so not because of the government's call for nation building, but because of the astronomical salaries that can be commanded from investment banks and brokerage houses in China and Hong Kong. A handful of returnees earn US\$100,000-200,000 a year.

It is more than just salaries that drive

China's educated youth to "go private," however. The futility of working within the bureaucracy can be maddening. "I'd go back and work for the government," says a mainland-born financial analyst in Hong Kong, "if I thought I could have any impact. But they would probably have to make me the minister of finance for that."

The question that looms large is whether the traditional scholar class will again rise to the fore as the political situation changes. The economic chaos that followed the collapse of the Soviet Union has made a powerful impression on the Chinese public, who seem less inclined to support political

activists than they were in 1989. "The people have been told that stability is the key to economic development and they believe intellectuals should just go along with the government," says a mainland scholar. "Now intellectuals doubt themselves. They wonder if it's worthwhile to speak out. They wonder if anyone really cares."

While old-style intellectuals debate that question, the market is giving birth to another kind of social critic — one almost divorced from the politics of the day. Novelist Wang Shuo, for example, makes no claims to being an intellectual and would likely balk at the thought. But his gritty tales, sometimes called "hooligan literature," lampoon many facets of society and occasionally touch on political issues. "It's trash," responds poet Bei Ling when asked about Wang's work. "Intellectuals should lead society by using literary language, not follow society by using common language. . . . Wang Shuo laughs at problems that should be taken seriously."

If China's intellectual community is to regenerate itself and rise to its former glory, who then will lead it? Younger intellectuals are inspired by people such as Xu Liangying. A 74-year-old professor of philosophy of science at the Chinese Academy of Science, Xu last March led a group of seven university professors in drafting an open letter to authorities, appealing for greater freedom of speech. Often placed under surveillance, Xu nevertheless remains confident about two things: China's eventual democratisation and that the decline in the status of intellectuals will reverse itself. "It is true that many people look down on intellectuals now because we make so little money," he says, "but this is an abnormal situation. . . . In the end, intellectuals will still be the key to China's democratisation." ■



Student protesters at Tiananmen, May 4, 1919.

Kari Huus, editor of *China Trade Report*, is based in Hong Kong.

Passing the Bomb

Critical Mass: The Dangerous Race for Superweapons in a Fragmenting World by William E. Burrows and Robert Windrem. Simon and Schuster, New York. US\$25.

The United States' attempts to dispel the nightmare of a North Korean nuclear bomb and reduce the tension between nuclear-armed India and Pakistan are belated and deeply flawed. The major problem for the Clinton Administration is not a lack of will, but the fact that it has inherited a non-proliferation policy that for the last 40 years practised double standards, lies and subterfuge with both allies and enemies.

In this new and provocative book, investigative writers William Burrows and Robert Windrem propound this thesis for the post-Cold War world, as Asian and Third World countries use unconventional means to acquire nuclear capability. These countries increasingly view the acquisition of "instant" nukes as the sole means of guaranteeing national security as ethnic, religious and tribal warfare breaks out around them.

The authors disclose how India and Pakistan were on the verge of nuclear war three times in the past decade, how Iran is shopping for a ready-made nuclear bomb and how China has helped jump-start nuclear programmes in Pakistan, Iran, Algeria, Brazil and North Korea by providing expertise and technology. Excerpts from this book were published in the Indian and Pakistani press in March, just as U.S. Deputy Secretary of State Strobe Talbott began a crash mission to the two countries to try to bring their burgeoning bomb and missile programmes under control. The disclosures did the American mission little good.

The authors detail the arming of Iraq and Israel and how the U.S. helped to develop their nuclear programmes, only to discover after the Gulf War that while the CIA knew and kept quiet about Israel's 100 nuclear bombs, Iraq's nuclear capability had been seriously underestimated. Much of this is documented in Seymour Hersh's *The Samson Option*, but *Critical Mass* breaks new ground on the subject in Asia.

In June 1990, two influential American

friends of then-Pakistani Prime Minister Benazir Bhutto told her that the army chief, Gen. Mirza Aslam Beg, had ordered the assembly of seven nuclear warheads when India mounted military exercises close to the Pakistan border, whereupon both countries went on nuclear alert. Bhutto was denied the information by both Beg and Pakistani President Ghulam Ishaq Khan, who two months later threw her out of office.

Washington was better informed than Bhutto. But apart from a limited damage-control exercise, the U.S. did little, as the CIA still needed Pakistan for the expected Mujahideen victory in Afghanistan. With India, which tested a nuclear bomb in 1974 and by 1989 had deployed nuclear warheads and created a command structure with second-strike capability, the U.S. did even less.

Since the 1960s, both countries have taken the conventional route to nuclear capability, by stealing and buying secrets from U.S. and European institutions and companies, setting up dummy companies to buy sensitive equipment, training scientists in the U.S. and building secret nuclear facilities.

Since the end of the Cold War, countries like Iran and North Korea have taken shortcuts to developing nuclear capacity. Since the break-up of the Soviet Union, Teheran tried, and failed, to purchase a nuclear bomb from Kazakhstan and bomb technology from Pakistan. It failed in its efforts to hire former Soviet scientists. The North Koreans have received both Chinese and Russian help.

The authors lay much of the blame for this new proliferation on Washington's double standards. The downfall of the Soviet Union nearly made it possible for Greenpeace to purchase a Soviet nuclear-tipped missile from a silo near Berlin as East Germany imploded. Two thousand Russian nuclear scientists are now presumed to be working for the Chinese, while a Russian consortium of nuclear companies was formed in 1990 to sell nuclear weapons to Third World countries "for ecological purposes" such as dam building.

Fear that nuclear weapons will fall into

the hands of mad generals, warlords, terrorists and nations with unreliable foreign policy records is now intensified. But this is not entirely new. The book tells how in 1967 in Xinjiang, China, local communist party chiefs threatened to take over nuclear facilities and weapons at the Chinese test site at Lop Nor, if Mao Zedong did not stop the spread of the Cultural Revolution to the region. Mao complied.

Missile proliferation continues apace. China used funds from Pakistan and Iran to develop the M9 missile and delivered the product to them before supplying the Chinese army. Small countries, cash-starved European companies and unemployed mercenary scientists are co-operating to produce missiles, the same way Israel and South Africa developed the Jericho and Condor missiles. "This marked an ominous new direction in proliferation because it showed the Third World that small groups of nations could cooperate successfully for the development of their own superweapons without the participation of First World governments," write the authors.

Today, "all the proxies of the Cold War have become freelancers who are forced to look after themselves in a much less certain world." For anyone interested in understanding the dangerous brave new world we live in, this book is essential reading.

■ Ahmed Rashid

Ahmed Rashid is a REVIEW correspondent, based in Pakistan.

Roaring Rich

Hunting With the Tigers: Doing Business With Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam by Claudia Cragg. Pfeiffer & Company, San Diego. US\$24.95.

In 1992, Thai corporations invested more in the United States than U.S. corporations invested in Thailand. Japanese cumulative investment in Southeast Asia is double that of the U.S. More than 40% of American investment in the region is in a single industry: petroleum. And practically all U.S. investment there has been made by the same large corporations — Exxon, Dupont, Coca-Cola, etc. — that have been operating in the Southeast Asia decades.

Why are small- and medium-sized American firms and entrepreneurs missing the boat on the fastest-growing regional economy in the world? The answer is simple: ignorance. To many Americans, Southeast Asia conjures up images of a peasant behind a water buffalo and plough, corrupt bureaucrats and malaria-infested jun-



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gles, not sophisticated manufacturing plants, skyscrapers and a growing middle class clamouring for quality goods.

To readers alert to these opportunities, Claudia Cragg, a journalist with long experience in East and Southeast Asia, set out to establish to what extent companies and multinationals seriously consider the four little tigers (Hong Kong, Singapore, South Korea and Taiwan) and five tiger cubs (Malaysia, Thailand, Indonesia, the Philippines and Vietnam) in their corporate trade and investment plans, and what practical advice they have for others.

She begins with a distillation of this advice in a format modelled on one-day business seminars: "20 key market selection criteria," "ten cardinal commercial 'sins' of the Asia-Pacific Rim," "ten commercial secrets of export success." Much of this is basic and over-general, with no case examples, but there are some potentially useful points, including the wisdom of specialising in high quality products rather than trying to compete on price.

Part Two includes 30-page chapters on each of the nine economies, including their strengths and weaknesses, stock and property markets, business sectors and practi-

cal information on creating a limited company, taxes, local employment regulations and where to obtain market intelligence.

Also provided are Confidence Index and Investment Risk analyses taken from *Asian Business* magazine. It is difficult to know how much stock to place in these. For example, Indonesia ranks highest in the Confidence Index, but next to the bottom on the Investment Index. One part of the analyses asks respondents in each country to rank the prospects for 16 Asian-Pacific Rim economies. The results differ drastically depending on the country where the survey is taken: the South Korean economy, for example, is ranked first in Thailand but next to last in South Korea.

Unlike other business guides of this genre, this one provides practical information, but makes almost no attempt at describing cultural and social institutions, customs or manners. Perhaps this is just as well, judging from the typographical errors in the few paragraphs devoted to these topics: ethnologists, for example, will be astonished to learn that among the ethnic groups of Indonesia are the Sudanese and the Batiks, the latter presumably found in cloth markets.

Those familiar with the region will probably want to skip the first 374 pages and turn to "The Little Black Book: Who's Who in the Asian-Pacific Rim." Certainly, as Cragg promises, if you can get some of these names in your network, you are well on the way to business success in Asia. "The game plan" she provides for doing so, however, leaves much to be desired. Though every reader will quibble with the selection of businessmen and businesswomen, what is striking (but not surprising) is that most of those included in *The Little Black Book* are Chinese, underlining the importance of this group for the region's economies. All the more surprising, then, that the guide provides almost no insight into Chinese culture, business etiquette or ethics.

Despite these reservations, this guide successfully makes its point: that Americans and Europeans can no longer prey on the tigers, but rather must learn to "hunt with the tigers" — or risk being eaten by them.

■ Alain Dessaint

Alain Dessaint is Asian Specialist with the Business Council for International Understanding, American University, Washington, D.C.

Sex on Paper

No Money, No Honey! by David Brazil.
Angsana Books, Singapore. S\$10.

The Great Hong Kong Sex Novel by
George Adams, AIP Publications, Hong
Kong. HK\$95.

Many societies in Asia are exploring their sexuality like adolescents peering inside their sarongs. Every so often, these ethereal musings coagulate into a tangible form and appear on bookshelves.

The most notable thing about *No Money, No Honey!*, a guide to sex for sale in Singapore, is its shamelessly practical nature. It analyses the red-light areas of Singapore literally street by street. Section headings include Orchard Road, Flanders Square, Johore Road and so on. There are also other "useful" subdivisions: Indonesians, Indians, Filipinas and so on.

One has to wonder about the moral standpoint of such a work. Is writer David Brazil, a British journalist who moved to the Lion City in 1988, promoting this unpleasant industry or

condemning it? Apparently neither.

"This book does not take a moralistic approach towards sex-for-sale. It aims to be neutral," Brazil writes in the introduction. But he is too exuberant a writer to follow his own dictum, and his obvious enthusiasm for this netherworld keeps erupting out of his paragraphs.

"Sometimes real catfights with glasses flying can break out between arguing girls [adding to the entertainment for male onlookers!]" he writes with glee. Here's a man who enjoys his work.

The book cannot be seen as a detached, academic analysis of the sex industry in Singapore. But its real value lies in its wealth of detail. There has been

a genuine attempt to amass a huge number of solid facts: prices, locations, ages and backgrounds of the participants, and so on. By sheer journalistic striving after detail, he has successfully captured something of the atmosphere of this rarely discussed topic. And he's thorough: in places, Brazil even looks at the women's side of the story, thus partly redeeming himself for his male chauvinism.

The Great Hong Kong

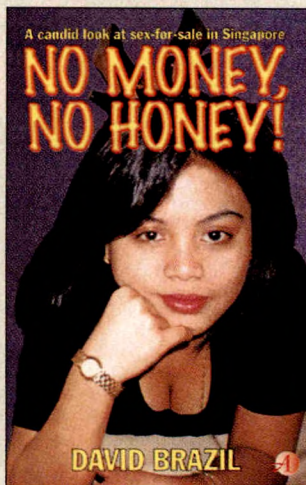
Sex Novel enters the same world of illicit sex, but from a different angle. It purports to be a fictional catalogue of one man's conquests and his eventual downfall. The man is a European who has come to Hong Kong to work, and in the process catches "yellow fever" — an addiction to young Chinese women. The writer, George Adams, is something of a pop psychologist, who tries to interlace the tales with characterisations of the territory's inhabitants: straightlaced Chinese secretaries, puerile European males, passionate Filipinas.

There is not enough humour to make it a comedy, and not enough art to make it a literary novel. But one has to admit, the records of sexual encounters, sometimes disastrous, are horribly believable. Similarly, at first glance, one is tempted to write off the characters as stereotypes — but as you read on, you find the characters have a vividness usually displayed by creations based on real people.

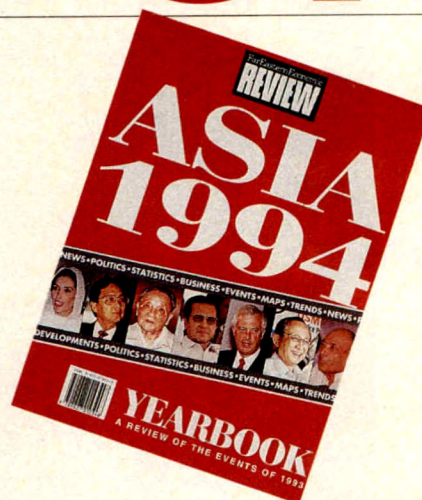
"I knew that sleeping with an ugly woman gave me the perfect opportunity to hate her afterwards. If I could hate the women I slept with, I would always be safe from love," says the repellent protagonist. Both these books have the useful advantage of freeing the curious reader from having to enter the unsavoury worlds described.

■ Nury Vittachi

Nury Vittachi is a senior writer at the REVIEW, based in Hong Kong.



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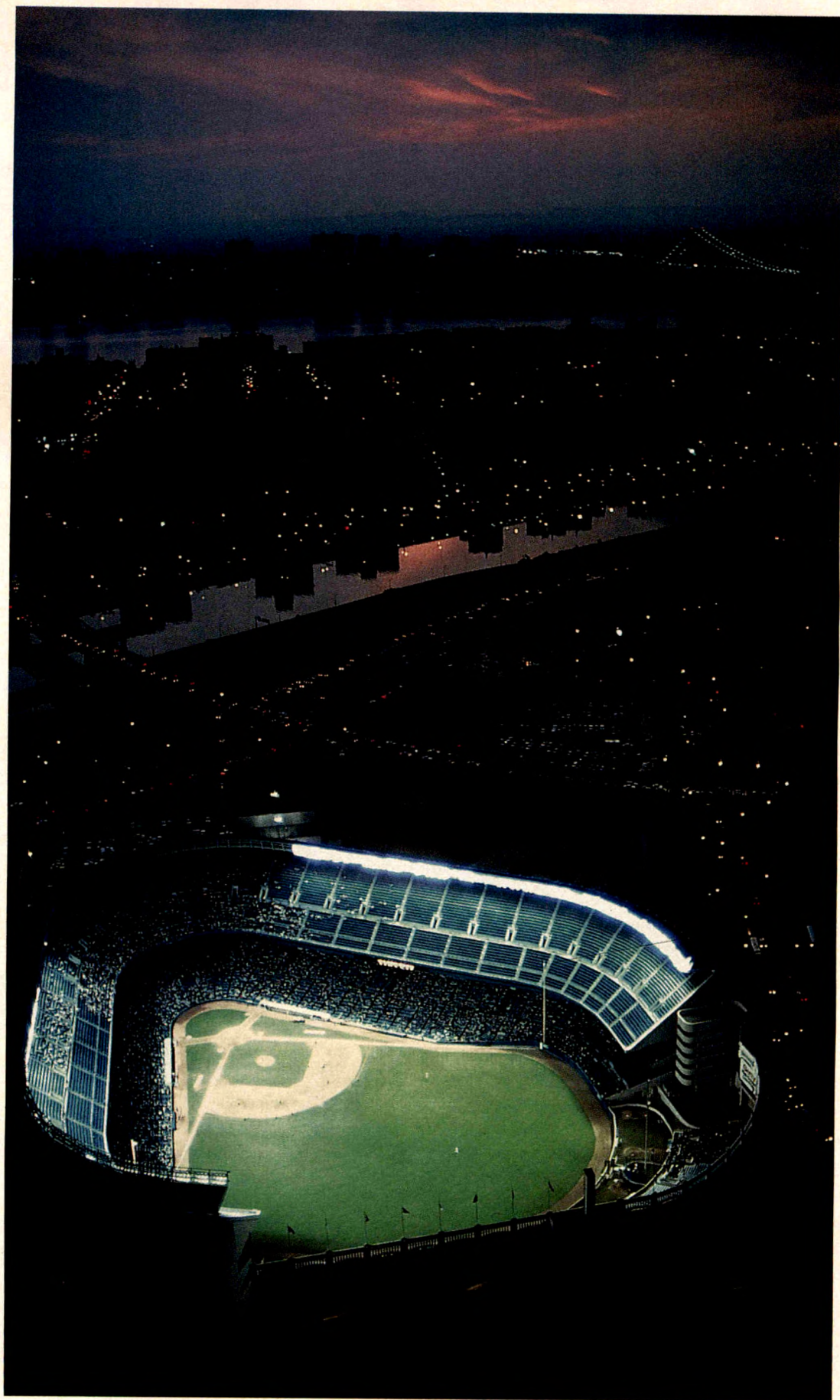
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Apple on trial; NEC's Sekimoto is undefeated.



TECHNOLOGY

Mac Attack

Japan's PC-market battle is on — and Apple is the big winner so far. But Japanese computer makers are fighting back with new products. The ultimate winners: consumers.

By Jonathan Friedland in Tokyo



Round One of the shake-up in Japan's personal-computer (PC) market has ended, leaving a surprise foreign company as winner and some veteran players battered, and offering consumers more value for their money.

Eighteen months after American upstart Compaq shattered the not-so-cosy cartel that kept the prices of PCs outrageously high in Japan, PC demand is rising. But while an expected shake-up in market share has occurred among the industry's big players, brash insurgents like Compaq and Dell have not benefited much.

Apple Computer, also of the United States, is the surprise big winner in the early stage of Japan's newly competitive PC battle. Apple increased its market share to 13.9% last year from 5.6% in 1992 and supplanted Fujitsu as Japan's second-largest seller of PCs. Its success stems from the patient groundwork it had laid over the past decade and — more immediately — a bottom-line-busting approach to pricing that equalled Compaq's. The Japanese were stunned in October 1992 when

Compaq introduced a PC at roughly half the price of the comparable best-selling model made by Japanese giant NEC.

But Apple's position is by no means secure. Its success was built largely on the fact that its icon-based system is easy for Japanese to understand and use. With the arrival last May of a Japanese version of Windows 3.1, produced by American software leader Microsoft, that distinction has been lost. Windows is similar to Apple in that it uses graphics and a point-and-click system. What's more, it cuts through the software-compatibility problems between NEC machines and the scores of IBM-standard machines now being made.

Steve Myers, an electronics analyst at Jardine Fleming in Tokyo, foresees a Japanese replay of what Windows did to the Macintosh in the U.S.: remove its main comparative advantage — ease of use. "Ninety percent of the software applications for 3.1 aren't here yet, and that is why Apple continues to grow," says Myers.

The big losers, meanwhile, have been Japanese companies like Fujitsu, Hitachi and Toshiba. These firms stuck by their own models for more than a decade even though the rest of the world was coalescing around two standard hardware and software systems: Apple's Macintosh system and IBM machines combined with Microsoft's MS-Dos operating system. However, the Japanese market shift has forced domestic companies to join the pack. Sales of proprietary systems dropped 34.5% in 1993 and are expected to plummet nearly 50% this year.

The domestic firms have agreed to sell the IBM-standard system domestically as opposed to making it only for export, and they are grudgingly phasing out PCs based on their own operating systems. In addition, all are casting around for new marketing gimmicks to set them apart from vendors of cheaper IBM-standard machines such as IBM itself, Compaq and Taiwan's Acer and Mitac.

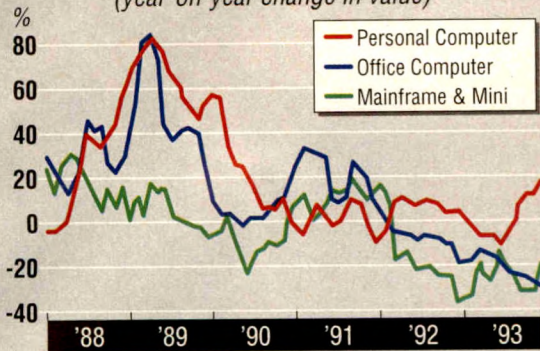
NEC is the big exception to this pattern. It too has a proprietary version of MS-Dos, but the company will stick with it, says President Tadahi Sekimoto. "Everyone said we would lose our 50% share. We didn't," he says. "Apple has improved its position, but our PC 9800 series will survive." Sekimoto has some reason to be confident, say industry watchers. NEC still has massive distribution clout, not only with some 7,000 mom-and-pop electronics

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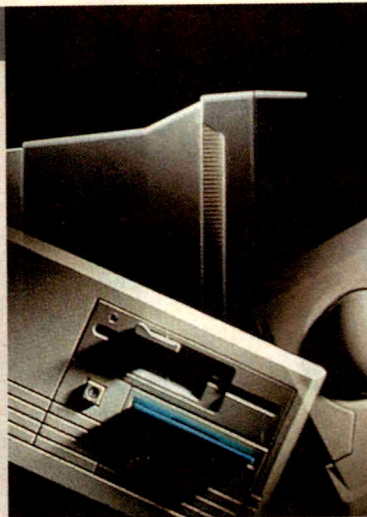
PC Dominance

Japanese computer production
(year-on-year change in value)



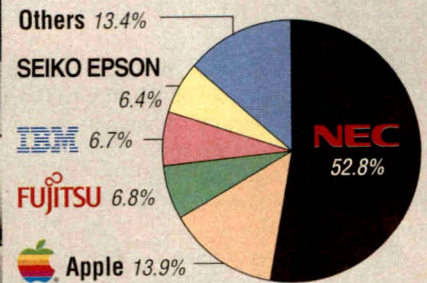
Note: 3-month moving average

Source: EIAJ



Free-for-All

Japanese PC market share, 1993



Source: Dataquest

stores, but with increasingly popular discounters like Best Denki and Jonan Denki.

"We have to deal with Windows," says Sekimoto, "and that is exactly what we are doing. The Japanese version of Windows is installed on our PCs, and that is good for everyone."

Sekimoto expects strong growth in the domestic PC market this year as the availability of packaged software for Japanese Windows 3.1 gains momentum.

IBM Japan executive Mac Jeffery shares that view. "The environment before was eight big players with mutually incompatible architecture and no foreign companies on the map," he explains. "When the dust settles, there will be three architectures: ours, NEC's and Apple's. The Japanese makers will have 60-70% of the market and [foreigners] will have the rest."

For computer companies, distributors and retailers, the ferment means that profit margins are shrinking. Although the price per unit of computer has dropped, the average retail price for each PC increased to ¥266,000 (US\$2,600) last year from ¥248,000 in 1992. But more came with the deal.

For laptops, colour thin-film transistor screens became *de rigueur*. For desktop computers, more memory was added and applications-software programs were bundled into the sale. CD-Rom drives also came into the bargain; last year sales tripled to 300,000. Usually they were sold with a PC for home use. The huge increase indicates that attractive sales packages are luring more Japanese to buy PCs for the home. Household penetration of PCs in Japan stands at around 5%, compared with more than 10% in the U.S.

"Last year, prices were almost flat but value and performance were greatly increased," says Katsushi Shiga, an analyst at Dataquest in Tokyo. The next step, he adds, is for prices to start declining more rapidly. Shiga predicts a drop of around 10% in 1994.

"The price differential between the U.S. and Japanese markets will soon be very

small," predicts Masao Suga, a senior manager in Toshiba's PC division. "We are getting to the time where we have to sell a lot of computers at low prices." Statistics support this: Dataquest reports that PC shipments rose 10.6% in volume last year to 2.5 billion units while revenue increased only 8.9%. Shipments this year are expected to rise 11%, with uncertain returns.

This is bad news for Japanese computer companies that have long relied on fat margins in the domestic market to stay competitive overseas. In addition to the soaring yen, domestic price pressures are forcing them to source a greater share of their components offshore and, in certain cases, to move assembly operations abroad. "You can't charge US\$5,000 a machine any more," says IBM's Jeffery. "The idea that the Japanese consumer will pay any premium has been blown away."

What most analysts don't expect to emerge, however, is a willingness among Japanese consumers to pay less for their PCs at the expense of hand-holding by makers and their agents. That's where they believe no-frills outlets such as Dell Computer went wrong. Dell made a big splash in the market and then found few Japanese

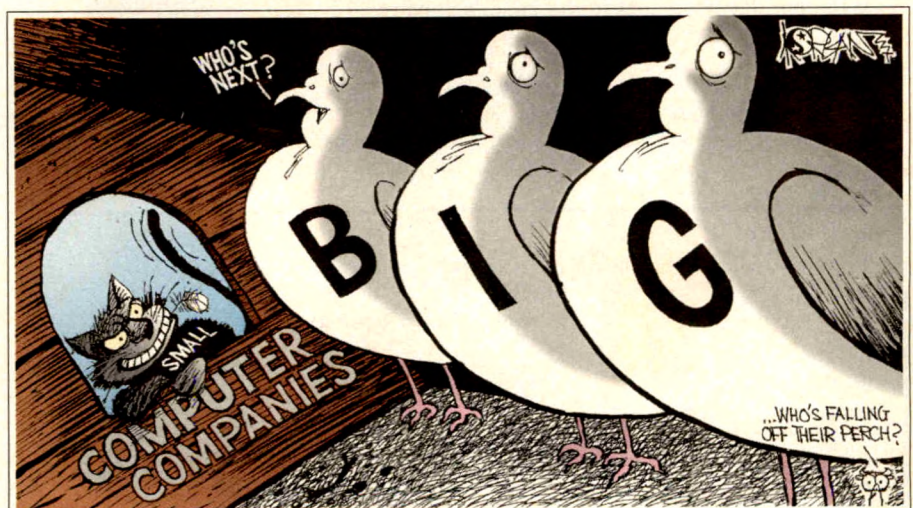
consumers who could understand, much less accept, its mail-order system for PCs.

As a result, Dell and Compaq, which also prides itself on offering more bang for the buck, have been quietly revamping their marketing and distribution strategies to include some of the service features demanded particularly by Japanese corporate customers.

"Japanese customers are very familiar with nice support at no charge," says Dataquest's Shiga. "The U.S. style, where the service charge is separate from the selling price, hasn't gone over well."

Compaq, which now has a market share of around 1.4%, concedes the point. "We will continue to work on lowering prices in the consumer area," says Yoshisuke Ishiuchi, director of marketing at Compaq's Tokyo office. "But we will try to hold the line in the commercial area."

Industry executives say built-in support fees will be necessary to maintain profitability as the down-sizing phenomenon, where companies replace mainframes with PCs or workstations that are linked together, gathers pace. This process, which is well-advanced in the U.S., is just beginning in Japan.



Memory Gain

IO Data brings peripherals in from the edge



The link between designing *ibo* belts and making memory-expansion boards for computers might defy standard logic. But the transition makes perfect, simple sense to Akio Hosono.

It's all a matter of niche — finding one, exploiting it, and turning a handsome profit in it. Hosono's IO Data Device is his latest example of niche strategy. The Kanazawa-based company, which started 18 years ago with a piddling ¥1 million in capital, has managed to confound the odds by providing the devices that satisfy consumers' insatiable desire to run new, faster computer programs on their own personal computers.

"We don't need to be the fastest runner in the world," says Hosono, an affable 50-year-old whose spare corporate office faces the Japan Alps. "I think it is more interesting to watch that runner and see what he forgets."

Hosono's gamble has paid off. Unlike

most other companies jockeying for position in Japan's PC derby, IO Data's revenues are expected to grow by two thirds to ¥27 billion in the year to June 1994. It is also expected to show strong profit growth in the same period, a factor that has made IO Data a stockmarket darling.

The surge stems from skyrocketing demand for memory-expansion boards. Most PCs now available are too slow to run Japanese-language versions of the vast library of English-language programs that have become accessible as a result of the consolidation of standards around the three operating systems offered by NEC, Apple and IBM.

Hosono moved into the peripherals business in the mid-1970s because he himself was an early memory victim. Then a designer for patterns used to make elaborate belts for *kimono*, he sensed he could use computers in the design and manufacturing process. He bought a mini-computer, but it fell short of his needs. "We didn't have enough memory," he says. "So we



Hosono: niche player.

went into the memory business."

At the time, Kanazawa's textile industry was undergoing a structural shift that saw factories transformed into sub-assemblers for the country's then-vibrant electronics industry. Hosono and his team of engineers convinced four small firms that made TVs and video recorders for Sanyo and Matsushita to assemble memory boards as well.

IO Data now makes 200 different memory boards that together account for more than 80% of its sales. Business is booming, but Hosono is uncomfortable. Although IO Data's only major competitor is the smaller, Nagoya-based Melco, he worries that vastly more powerful PCs coming onto the market in the next year and a half will reduce demand for his product.

Moreover, market giant NEC — which has long worked with IO Data Device — may be getting less cooperative. Analysts say it is seeking to make up for a devastating drop in revenues by entering niche markets that it previously ignored. "Melco and IO Data will have a tougher year in 1994," says Katsushi Shiga, an analyst at Dataquest. "They were protected before by NEC's lack of interest, but now NEC will take whatever business it can get."

Hosono isn't sitting still. Already he has moved decisively into his next niche: multimedia for home use. IO Data has started marketing a line of peripherals that allow PCs to produce better sound and sharper graphics. Last July, it established a joint venture with Singapore-based Creative Technologies to market its Sound Blaster plug-in sound board in Japan. These items and others are being bundled together in a variety of easy-to-understand upgrade kits for home use.

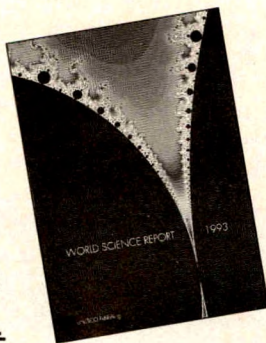
"Before the multimedia boom got started, our business was combining chips with software," says Hosono. "But from now on, product marketing and truly new technologies will be more important. That's a big challenge for us." ■ Jonathan Friedland

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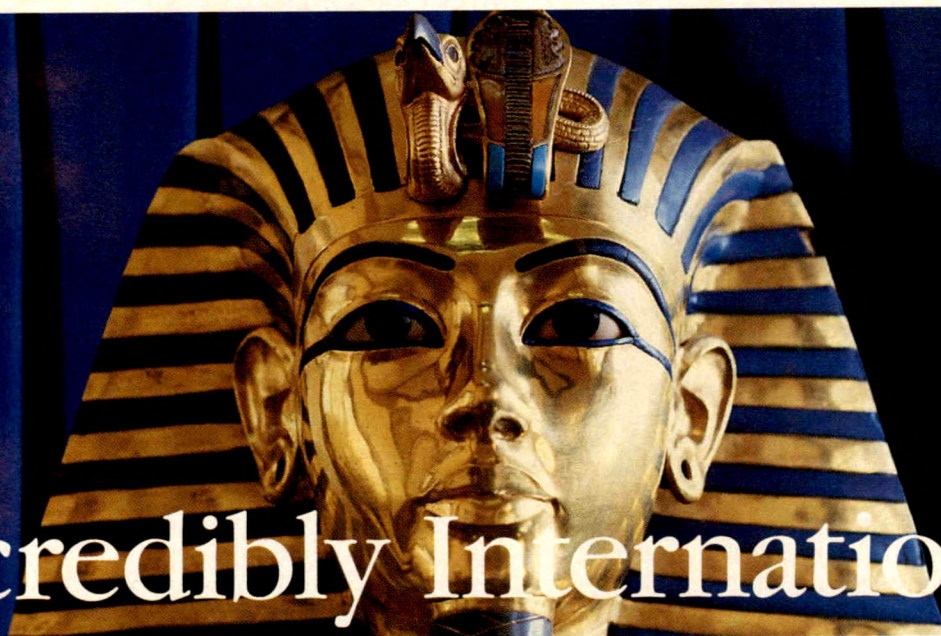
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Strategic Alliances

Companies combine their research operations



When Hitachi announced in late April that it would use microprocessors developed by IBM in its mainframe computers, the collective heart of the computer world skipped a beat. The truce between the arch-rivals marks a watershed in the race to develop better, faster, more-profitable generations of the chips that control the central function of a computer.

And they're not alone. As competition in the Japanese computer market intensifies and profitability dives, alliances among friends and foes alike are becoming more common, especially in the development of the next generation of microprocessors. Also in the last week of April, Fujitsu and

Sun Microsystems said they would merge development efforts on future generations of Sun's Sparc microprocessors for workstations. The announcement came a day before Hitachi revealed its new links to IBM. In addition, Hitachi hinted that it might use the new Power PC chip, developed jointly by IBM, Motorola and Apple Computer, in some of its personal computers and workstations.

The shrinking life cycles of new generations of microprocessors and soaring development costs have prompted the companies to combine research operations. "Open competition worked when a Sparc chip took US\$10 million to develop," says Bill Raduchel, a Sun executive vice-president. "But now it costs US\$40-50 million."

Neither Sun nor Fujitsu can afford to duplicate research and development costs if Sparc, which is used to power UNIX workstations, is to maintain its performance edge, he adds. Working together also means a larger production run of a given microprocessor. That, in turn, makes the product more cost-competitive. Because they power lowly PCs as well as mainframes, the extremely high-performance and costly-to-develop microprocessors have become price-sensitive, mass-market items.

That's why everyone takes notice when Hitachi gives even a tentative thumbs up to the Power PC. The Apple-IBM-Motorola team is in hot competition with Intel, whose 486 microprocessor runs 80% of Japan's PC market. Intel has introduced its next-generation chip, the Pentium, which is going head-to-head with the Power PC. The chip has become the core of new PCs made by Compaq, Dell, Fujitsu, Seiko-Epson, NEC and, yes, Hitachi — at least until the Power PC proves itself.

■ Jonathan Friedland

How Green Is My PC

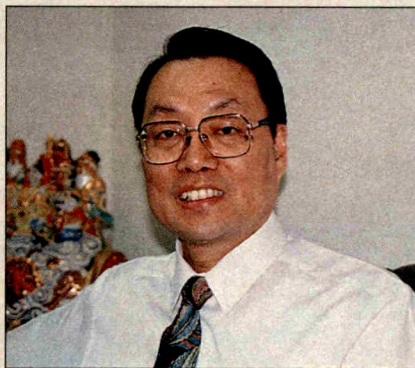
By Mark Clifford in Hong Kong

Myth: computers don't use much electricity. **Fact:** office equipment is one of the fastest-growing consumers of electricity in Asia.

Hong Kong, for example, spends about HK\$1 billion (US\$130 million) a year running personal computers. But a few simple improvements could shave more than HK\$300 million off that bill, says Hewlett-Packard engineer Klaus Hieronymi. As most of Hong Kong's electricity comes from coal-burning power stations, the annual savings in pollution would equal the smog pumped out by 10,000 cars.

Enter the green personal computer. "Green is a movement, and green PCs are a marketing trend," says Stan Shih, chairman of Taiwan-based computer maker Acer. Part marketing tool, part hard-headed business, and part preemptive strike at environmentalists, green PCs have come into their own in the past year. "Every [computer] platform we will see in 1994 will be green," says Harrison Parks, who runs the Taiwan operation for Phoenix Technologies, an American firm whose niche software programs have been reconfigured to use power more efficiently. "It is amazing how [the market] shifted so quickly."

The reason for the change is simple: United States Government policy. Beginning in mid-1992, the Environmental



Shih: going with the trend.

Protection Agency (EPA) allowed companies that meet minimum standards of power consumption to carry the "energy star" seal of approval. To qualify, an unused computer must automatically switch into an idle state that consumes less than 30 watts, far below the 250-300 watts that old-style desktop computers guzzled.

Major corporate buyers of PCs in the U.S. now demand that vendors meet or exceed the EPA benchmarks. Computer makers can do this without adding costs, thanks to the relentless drive towards miniaturisation and the power-saving technologies they already put into notebook computers.

In at least one market, however, manufacturers can nonetheless charge more for the cachet of a green machine.

"In Korea, we can command a premium for the green PC," says one vendor. "I was surprised . . . It doesn't cost us any more to produce."

In China, green demand stems less from environmental concern than from simple economics: electricity is a relatively large operating expense there. "The Chinese don't think of it from the standpoint of the environment," says this vendor. "They think of their operating cost, of what's in it for them."

Many computer makers are promoting environmental consciousness. Hewlett-Packard, the longtime leader in laser printers, now recycles its cartridges. Ditto for batteries, whose cadmium wreaks environmental havoc if not treated properly. Hewlett-Packard has managed to cut hazardous waste 10% a year for the past decade even while quadrupling in size.

Increasingly, says Hewlett-Packard's Hieronymi, engineers must build machines that can easily be upgraded — to accommodate more-powerful microprocessors — or be dismantled and recycled. Hewlett-Packard and Compaq Computer have taken environmental concerns into the manufacturing process. For instance, Compaq eliminated ozone-depleting chlorofluorocarbons from its manufacturing operations in early 1993.

Hieronymi says the biggest energy savings still comes from the lowest-tech solution. Switching the computer off at night, he estimates, would almost halve the power consumed by Hong Kong's PCs. ■

In the same week that Mr. Clinton was reaffirming that America was "wrong" in Vietnam, the Far Eastern Economic Review was reporting a remarkable story headlined, "The Rebels Time Forgot". It's about a lost tribal mountain army, totally isolated in the remotest jungles of Indochina, who continue waging a long and lonely struggle to defend their culture, religion and freedom against the Vietnamese communists. These tribesmen, trapped in a time warp, still understand the difference between what is right and what is wrong. It's also important for president

Details of a plan to shut or sell Hutchison Telecommunications' overseas operations are reported today in the Far Eastern Economic Review, following alleged leak from a board meeting of Hutchison senior executives on Tuesday. In answer to the allegations, Mr Murray confirmed that the meeting of board executives did take place on Tuesday. He was present, with group chairman Li Ka-Shing. "We have decided to concentrate only on the businesses that we have at this time."

The Asian Wall Street Journal

South China Morning Post

China is still looking for an aircraft carrier after a deal to buy one from Ukraine fell through, according to the Far Eastern Economic Review. In its latest issue published yesterday, the magazine said Chinese leaders had recently restated their intention to eventually deploy a carrier as part of the country's naval modernisation programme.

Malaysia is expected to announce plans for a new US\$800 million mass transit system for Kuala Lumpur using Canadian technology and financing, a magazine report said. In its issue to be published today, the Far Eastern Economic Review said it has obtained information from a source close to the project that national rail carrier KTM and Canadian transport engineers Delcan are working on the bus-rail plan to drastically overhaul the capital's transport.

In Hong Kong, the Far Eastern Economic Review reported that the Khmer Rouge, in a secret document said that it wants to "open a battlefield" in the Cambodian capital of Phnom Penh as a first step to grabbing power. In its issue released to the Review said that the document, dated Feb. 6, apparently quoting Khmer Rouge supreme Pol Pot, showed that the radical faction's line remained unchanged.

Agence France Presse News Service

Reuters News Service

The Straits Times of Singapore

environmentalist not to be so arrogant as to believe that "it is the white man's burden to decide the fate of the peoples in this world". The Far Eastern Economic Review magazine said it had obtained Dr Mahathir's letter to rainforest activist Bruno Manser in which he warned the environmentalist that he would be held responsible for any violence which occurred in the same area.

Huang was commenting on a report in yesterday's edition of the Hong Kong based Far Eastern Economic Review which said that China had decided to invite the Taiwanese government to hold unprecedented direct talks on reunification. The magazine said the offer of direct talks was imminent.

The phrasing of the statement, monitored in Bangkok by AP, indicated it represented official government policy. Khieu Samphan, in an interview with Hong Kong-based Far Eastern Economic Review, said the UN mission had to "understand the urgency of resolving this problem of the Vietnamese settlers who are part of the Vietnamese occupation plan to swallow Cambodia." The Far Eastern Economic Review

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BUSINESS

ENERGY

No Routine Drill

Oil companies tell Russia: laws first, then development

By Jeffrey Lilley in Moscow

It has taken six years and US\$80 million, but a group of Japanese and Western oil companies may soon get what they want from Moscow: an agreement with legal protections to develop promising oil and gas reserves off the northeast coast of Sakhalin Island.

A contract between the Russian Government and a consortium known as MMMSM to exploit reserves along the Sakhalin shelf is set to be signed this month. Pending ratification by the Russian and Sakhalin parliaments, the deal holds the promise of huge profits for the foreign companies and could pave the way for Russia eventually to become a major player in Asian energy markets. (MMMSM includes USX's Marathon Oil, McDermott International, Mitsui & Co., Royal Dutch/Shell Group and Mitsubishi Corp.)

A protocol for the deal signed in March would allow MMMSM and its Russian partners to develop reserves in the Piltun-Astokhskoye and Lunskeye fields. The areas combined are estimated to hold 750 million barrels of oil and 14 trillion cubic feet of gas. Moscow also expects to sign three more agreements this year with other foreign oil companies to develop offshore reserves, says Russian Fuel and Energy Minister Yuri Shafraanik. The area's proven offshore oil reserves are estimated at 1.5 billion barrels.

"What happened in the North Sea is beginning to happen on Sakhalin," says the first vice-governor of the Sakhalin region, Nikolai Arsenyev. The North Sea is currently the world's largest offshore oil producer. MMMSM's development of the two fields — called Sakhalin II for short — will cost a reported US\$10 billion. About 60% of annual production — expected to start by 2000 — is slated for Asian markets, including Japan, China, Taiwan and South Korea, say MMMSM officials.

But the group still faces considerable hurdles before it can begin work. The most significant has been winning approval for an oil and gas law that would protect the group's investment from political uncertainties, namely a shifting legal framework and exorbitant taxes. The MMMSM deal and others hinge on the passage of a production-sharing law by the Russian parliament "so we know the rules we are playing by," a consortium source says. MMMSM officials say they have been assured that the law will be passed by September.

The deal has been stymied for years by

the threat of high export taxes, questions over land ownership and demands from the Sakhalin government for infrastructure improvements. Long considered little more than a Soviet military outpost on the Pacific Ocean, the island of 700,000 people remains woefully underdeveloped.

During the long negotiating period, MMMSM spent US\$80 million to prepare a feasibility study that explored more than 60 different development schemes. "It's time to stop talking and start work," says the MMMSM source. "If the Russians can just trust their foreign partners and make a legal basis, then there's a bright future."

The group has learned valuable lessons from its less-fortunate predecessors. The White Nights oil project — a joint venture in Western Siberia between Anglo Suisse



Oil, Phibro Energy Production and Russian partners — has been crippled by changing legislation. To date, the venture has paid a reported US\$200 million in export taxes — a headache MMMSM wants to avoid. According to terms of the protocol, 70% of supply contracts for Sakhalin II will go to Russian enterprises, mostly from the military-industrial complex. Sakhalin will receive US\$100 million, some of which will be used to build an 800-kilometre pipeline to the southern port of Korsakov.

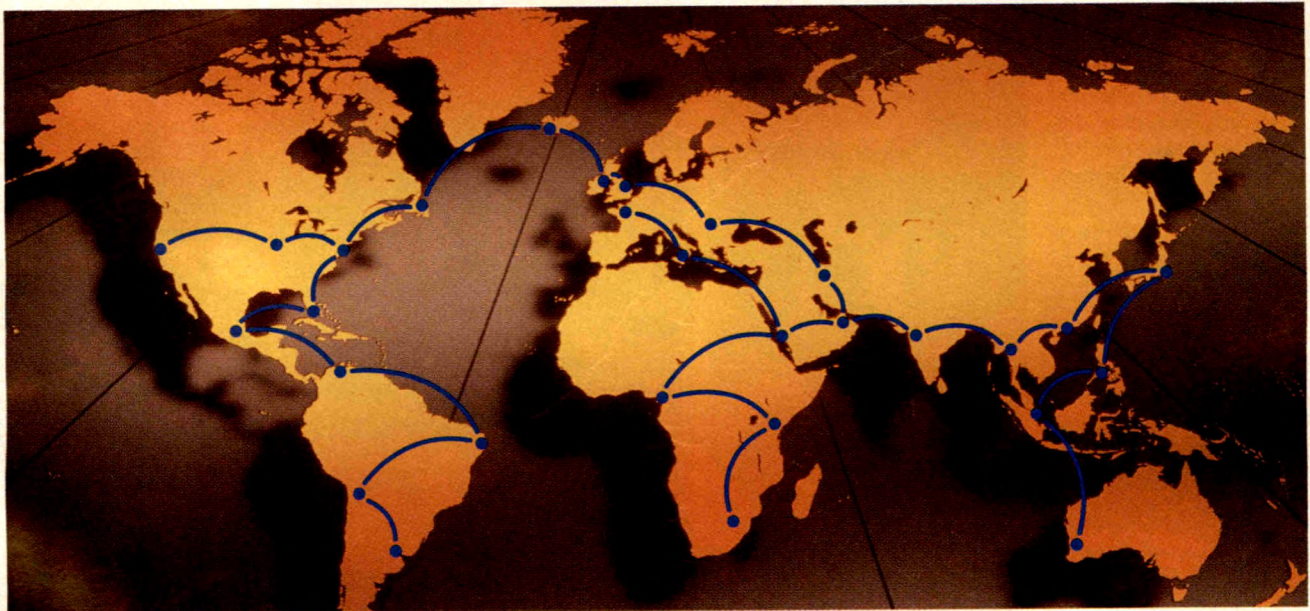
Despite its rich reserves, the southern tip of Sakhalin (including the capital, Yuzhno-Sakhalinsk) still experiences power outages because no pipelines connect it to northern production fields. Instead, oil and gas are pumped across the Tatar Strait to refineries on the mainland. The oil activity is expected to spur economic growth on the island and enable it to develop closer links with its Asian neighbours.

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Future Tense

Alvin Toffler peruses a fast-changing Asia

By Doug Tsuruoka in Kuala Lumpur

It would have been a great photo-op, one steeped in irony: Alvin Toffler, the American futurist, mingling with Kim Il-Sung, a political relic and master of the world's most reclusive communist state. Toffler, in Pyongyang a few years back, was on the verge of meeting the Great Leader. "We were 99% sure it would take place," he recalls.

Alas, *Realpolitik* intervened: United States and South Korean forces announced the resumption of their "Team Spirit" manoeuvres, and the meeting was cancelled, making for what Toffler says was one of the great disappointments of his life. As an expert of sorts on the unexpected, however, he shouldn't have been terribly disappointed: here, after all, is the author of *Future Shock*, *The Third Wave* and other works about the social effects of radical and unpredictable change.

It's been nearly 30 years since Toffler defined future shock as the "dizzying disorientation brought on by the premature arrival of the future." If a little disorientation is coming to Asia these days, Toffler would understand. He is no stranger to the region, having made more than 30 research trips to Japan and numerous visits to Taiwan and Hong Kong. In Kuala Lumpur recently, he met an ardent fan, Deputy Prime Minister Datuk Seri Anwar Ibrahim, regaled a paying audience of more than 500, and publicised his latest book, *War and Anti-War*. He also gave the REVIEW a quick-sketch vision of Asia's future.

Among his concerns: Japan will find its education system ill-equipped to prepare it for information-technology wars to come, a struggle in which the U.S. already has a lead. Meanwhile, the locus of Islamic political power could shift from the Middle East and towards Asia, spurring an economic and technological renaissance for the Muslim world. In the nearer term, he says, trade disputes are "the greatest worry" confronting both Asia and the U.S., and politicians only exacerbate matters.

"There is not one word written or spoken by one politician in any country about the subject of trade that is not hypocriti-

cal," says Toffler. "It's just the nature of the beast." Trade conflicts could split the Pacific Rim "down the middle," he says. "That's war. If you split the Pacific, you effectively split it along racial lines."

Current U.S. policy doesn't help things. "I can't imagine anyone pretending to be a great world power and behaving quite as stupidly on trade and Asia as the Clinton Administration." Trying to "take on" China, Japan and other countries in pursuit of trade and human-rights objectives, the U.S. risks alienating a lot of people, he says.

"Tactically, it is much cleverer to play



Toffler; Tokyo discount store: not set up for telemarketing.



China and Japan against one another, rather than attack them both simultaneously," he says. "I think the Clinton Administration just responded to lobbying pressure points in the U.S."

An early backer of the North American Free Trade Agreement (Nafta), Toffler now has doubts. "I favoured Nafta with the proviso that it could never be used to keep Asia out of the Western Hemisphere, but now there is no guarantee that Nafta will stay open." His solution to trade tensions: pragmatic cooperation among U.S. and Japanese companies. "We need GE-Jima," he says, or a "Maru-Bechtel."

For the moment, he says, U.S. companies lead Japan in computer technology, thanks to their creative applications of advances in electronic networking. The planned "information superhighway" is an example. Toffler says the telemarketing possibilities alone could slash the cost of selling manufactured goods, ultimately proving a boon to U.S. exports.

The U.S., Toffler says, is more culturally and physically predisposed than Japan to reap the benefits of such technology. Only 3% of Japanese households are wired with multi-access cable television, versus 60% in the U.S. Moreover, Japan's labyrinthine sales network, with its giant department stores, middlemen and countless mom-and-pop retailers, won't surrender easily to telemarketing.

Perhaps surprisingly, Toffler considers Japan's intensive educational system inadequate to its economic future. "It's a system that has been much over-praised," he says. "I want to know if it's such an effective system why a kid goes to a *juku* [after-school preparatory academy] at 5:30 in the afternoon and is still in school at 10:30 at night . . . Japan is not a good educational model. The system has to be radically revised."

Culturally, Toffler foresees some seismic shifts in the region, among them an increasingly influential Islamic presence in Southeast Asia. "Islam is an Asian religion," he says, and more Muslims live in Indonesia than in the entire Middle East. Islam's dominance centuries ago derived from its control of the trade routes. With an emphasis on technology and high-growth economies, Toffler argues, a small but rapidly developing country like Malaysia "could turn out to be the most important Islamic entity in the world."

Asia's biggest challenge in the next century, says Toffler, is maintaining "political stability." China and India are what Toffler calls

"First Wave" societies, those based largely on agriculture. But both nations also have budding "Third Wave," or information-based, economies, as well as "Second Wave," or industrial, sectors. Government must somehow avoid a clash of interests between the First and Third, he says. Otherwise, "what you have here are the makings of an internal political conflict" that could spill into the larger region.

In China's case, the power struggle between Beijing and the provinces could come to a head in the 21st century, Toffler says. "The provinces will either take over Beijing or Beijing will take over the provinces," he predicts.

Should the conflict stalemate, the "new elites" in Beijing will also focus massive amounts of power and technology in the capital, while dissociating themselves from China's most backward regions. This "revolt of the rich" could lead to civil war and dissolution, he frets. "It's going to be a new phenomenon." ■

Beyond China

Gordon Wu takes his business to Southeast Asia

By Carl Goldstein in Hong Kong

For the boss of a company long touted as one of the best China plays around, Gordon Wu spends a lot of time tending to business elsewhere. The managing director of Hong Kong-based Hopewell Holdings has just helped Philippines President Fidel Ramos break ground for Hopewell's US\$1.6 billion power plant at Pangasinan, northern Luzon.

Then there's Indonesia. Following two trips to the country since December, Wu recently agreed to build a US\$1.7 billion power plant in northern Java. Now he's negotiating to build extra generating units on the Tanjung Jati site, near Semarang. Meanwhile, work on his long-delayed superhighway in Bangkok is finally going ahead.

When Wu spun off Hopewell's power assets into Consolidated Electric Power Asia (Cepa) in December, he and the underwriters sold the issue mainly as a way for foreign investors to get a stake in power projects in China. But cold winds from Beijing have left that strategy open to question, and Wu is looking elsewhere for opportunities.

"I can't move forward in China. I wouldn't be doing justice to the shareholders or the bankers who've supported me" by sticking to a China-first strategy, Wu says.

To be sure, he hasn't given up on China. Cepa in late April received State Planning Commission approval for a power project in Shenzhen, just across the border from Hong Kong. Wu also hopes to get approval for a power plant in China's southwestern Guangxi province; a letter of intent was signed in 1992.

But he seems largely to have given up on the rest of the long list of China projects that Cepa described as sure things at the time of the stock offering. Even with the Shenzhen plant, the nod from Beijing doesn't mean the project will go ahead. It simply signals the start of negotiations between Cepa and the Shenzhen authorities over pricing, rate of return and foreign-exchange guarantees. What's more, any agreement must then go back to Beijing for approval. And there's the rub.

Beijing recently has grown uneasy about foreign-invested power deals. Premier Li Peng earlier this year ordered that foreign companies be limited to a 12% rate

of return on power projects. That's considered too low by most foreign companies.

Wu makes no secret of his unhappiness towards this latest turn in Chinese policy — and towards Li, an engineer by training who is "calling the shots" on electric-power development in China. "It's back to the not-open door again. They really believe it's a zero-sum game, that if any foreigner makes money, it will have to come at the locals' expense," says Wu.

An executive from another firm says there's a split within the leadership over the issue. He says the conservatives point to the rush of would-be foreign investors

the latest venture will push the total to US\$2.5 billion by the time it is completed. That's likely to make Cepa the largest foreign investor in the Philippines.

"I'm willing to commit all of Cepa's funds to the Philippines and Indonesia," Wu says. Cepa's Indonesia project provides further evidence for how dramatically the strategy has shifted. One looks in vain through the 250-page prospectus from the Cepa offering for any mention of Indonesia — except for the intention to pursue opportunities in "other Asian countries."

"It's a good thing we called our new company Consolidated Electric Power Asia. Otherwise, it'd be ridiculous now," Wu admits.

In Indonesia, Cepa Managing Director and Chief Executive Officer Stewart Elliott and other officials spent a few weeks touring Java with representatives of state utility Perusahaan Umum Listrik Negara (PLN). The search ended in Tanjung Jati.

PLN carried out extensive technical and environmental studies, which could shorten construction time to three years from four. That in turn would make it possible to improve upon the offered rate of return of just under 18%, Wu says.

He expects to finalise a 30-year contract with PLN by the end of June, at a price of about 7.5 U.S. cents a kilowatt hour. The price would fall further if the Indonesian Government agrees to let Wu build more units at the site. The plant is to be wholly owned by Cepa, but might later be listed on the Jakarta Stock Exchange to "give the locals a stake."

Wu is not completely pessimistic about investment prospects in China, but thinks it will take a year or more before there is much improvement. "It's going to stay this way until the blackouts get more serious, then they'll change their mind," he says.

The problem is not simply a difference of opinion among top officials about how much money foreigners should be permitted to earn.

Another factor is competition among Western, especially American, financial firms for deals in China. "So many Wall Street firms are rushing in there that the Chinese have gotten the idea they will have infinite access to foreign capital," Wu says. "But pretty soon China is going to realise that it can't just print money on Wall Street, and then they'll come back to earth."

Wu says Beijing thinks it can get foreigners to cough up the cash — and then do the rest itself. "Knowing how to execute a project is more important than having the money to do it," he says. "The Chinese believe that if they only had a paint brush, then they could paint better than Van Gogh."



Hopewell's Hopes

Cepa's projects

In Operation

	Cost US\$ million	Equity %
Shajiao B, China	526	50
Navotas I, Philippines	44	50
Navotas II, Philippines	39	100
Nine Barge Plants*, Philippines	n.a.	100

Under Construction

Shajiao C, China	1,874	27
Pagbilao, Philippines	933	49

Preliminary Agreements **

Tanjung Jati, Indonesia	1,700	100
Pangasinan, Philippines	1,600	100
Shenzhen, China	2,300	n.a.

* operated under management contracts

** letter of intent plus further approvals from government authorities

Source: Cepa

Gordon Wu



REVIEW GRAPHIC/CLAYTON LAM PHOTO: RICHARD WHITEFIELD/REVIEW

ENERGY

On Again, Off Again

Islamabad grapples with worsening power shortage

By Ahmed Rashid in Islamabad

It was the worst possible omen at the most inopportune time. Just as it was being installed, the second Russian-made unit of the Muzaffargh thermal-power station in southern Punjab caught fire and burned to the ground. What was intended as a showcase for the Pakistan Government's commitment to generate more power for an energy-starved country became a harsh reminder of how little progress it has made.

It didn't help matters that the loss came on the heels of an eight-month drought that has wiped out water reserves at hydroelectric-power stations, reducing the country's energy production by a staggering one third. Power outages now bring business to a virtual halt for several hours a day. The government demands that all new industries produce their own power. But for small farmers and millions of small machine-tool operations that form the backbone of the country's economy, power is as scarce as snow.

As a result, thousands of workers have been laid off. Consumers find it can take up to four days to get a car repaired, instead of the usual four hours. And officials of the Water and Power Development Authority (Wapda) take their phones off the hook or hide in friends' homes to escape the wrath of a hot, frustrated and angry public.

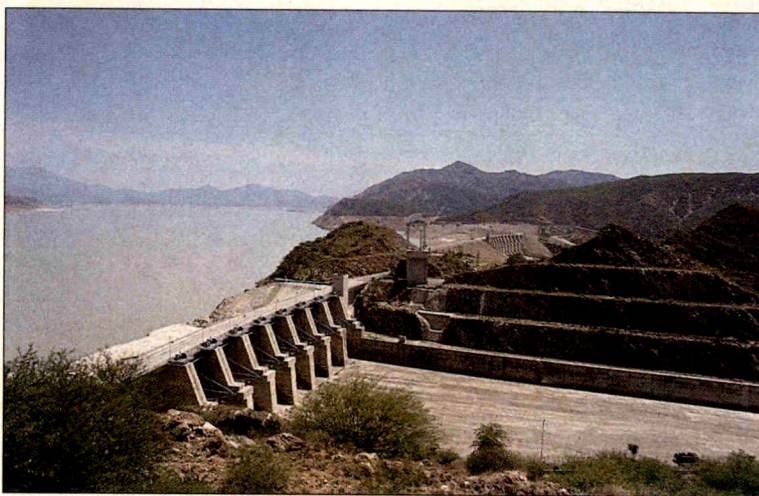
In short, the energy crisis is threatening the stability of Prime Minister Benazir Bhutto's government. And it comes at an acutely embarrassing moment — just when the government is trying to lure foreign investment to buy state-owned industries, including Wapda, and set up new power plants.

But relief may be in sight. On April 26, the government managed to pass a long-delayed bill paving the way for privatisation of Wapda, which controls 80% of the country's generating capacity. Opposition parties had refused to endorse the measure, which includes a provision to set up a regulatory body for the industry. But in a display of artful manoeuvring, the government pushed the bill through during an

opposition boycott of parliament.

Islamabad is also moving to expedite private-sector proposals for 18 new power plants. It has set up a one-window operation to speed up approval of projects, and will allow companies to issue corporate bonds. One proposal is from National Power of Britain, which has conducted technical surveys.

Still, the sector has a lot of catching up to do. The power plight has been years in the making and its disastrous effects may be felt for years to come, say government ministers. With electricity consumption rising by 12% a year and peak demand now exceeding supply by 21%, Wapda needs more than US\$1 billion annually of new investment — for eight years — just to keep up, say international lending agencies.



Tarbela dam: downstream private hydropower is going ahead.

"The government is looking for US\$8 billion from the private sector and US\$1.8 billion from the public sector to invest in new plants," says Shahid Hassan Khan, the chairman of a government task force on power. So far, the World Bank has provided a US\$230 million loan to Wapda. And the power authority is trying to raise Rs 15 billion (US\$491 million) through a bond issue that carries an annual return of 19% — the highest offered in the country. It is Wapda's sixth and largest issue since 1988.

However, international lending agencies are pessimistic about prospects for more fund-raising efforts. "There are enormous requirements of capital for power, and where is it going to come from? The government is being unrealistic," says an international energy expert. "With international agencies tending to give more loans

for the social sector, there is less available money for infrastructure."

Lenders suggest Wapda could improve its financial situation now by improving its bill-collection record, cracking down on corruption and theft within the agency, and reducing line losses.

Outstanding bills alone — more than half owed by the government — amount to Rs 11.4 billion. Lenders have also advised Wapda to raise prices and cut subsidies. But that raises problems for the government because urban residents and industry already think they are paying too much to make up for heavily subsidised rural areas.

Other political problems remain, especially with provinces that are worried about losing power revenue as a result of privatisation. Several major hydroelectric projects have been paralysed by federal-provincial wrangling over royalties, compensation for displaced people and water losses.

The biggest is the Kalabagh dam project in the North-West Frontier Province (NWFP), which has been delayed for a decade because of NWFP's objection.

The project is unlikely to go ahead even though millions of dollars have been spent on feasibility reports and infrastructure development. "Bhutto is not politically strong enough to force the provincial governments to give the go-ahead," says the energy expert.

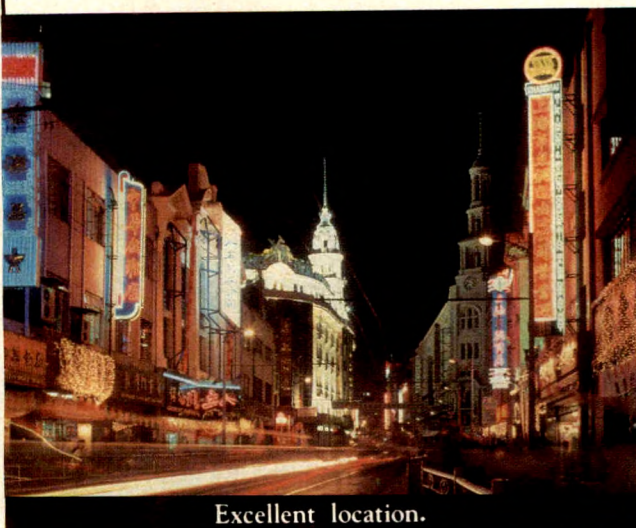
Meanwhile, two already approved private projects are moving ahead after long-fought battles. One is the Ghazi Barotha hydropower scheme on the Indus River, downstream from the massive Tarbela dam. The World

Bank has promised to secure external financing for the US\$2.2 billion project, while Wapda will raise 50% of the total cost.

The other plant about to break ground after nine years of legal wrangling is the massive Hub project along the coastline of Baluchistan. The US\$1.8 billion plant, slated to open in June 1996, is expected to increase generating capacity by 20%.

The government hopes the complicated power-purchase agreement between Wapda and two companies building the plant — Saudi Arabian Xenlen Industries and National Power — will be a model for private-sector contracts.

Forty-five banks will be involved in raising the money for the project, with Citibank as the lead manager. "This will be like crossing the Rubicon for Pakistan," says a senior Wapda official. ■



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POLICIES

Pressure Tactics

U.S. activists target companies doing business in Burma

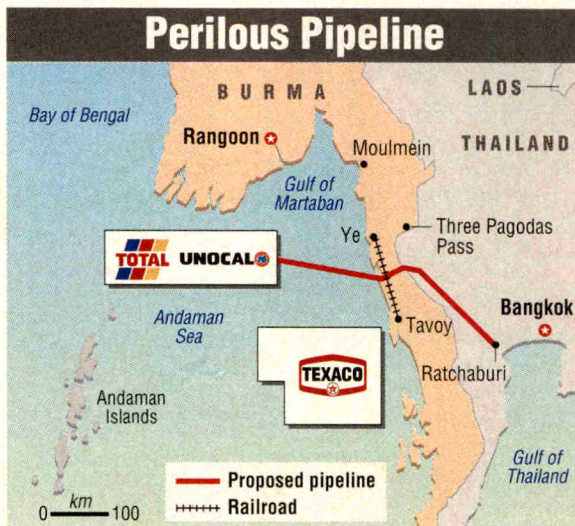
By Mark Clifford

American activists who cut their teeth on South Africa's anti-apartheid movement have shifted their sights to a foe they consider equally reprehensible — Burma.

Their weapons: boycotts, shareholder resolutions and legislation designed to punish American companies for doing business there. They contend foreign investment does more harm than good because the military government uses the hard currency to prop up a repressive regime.

California-based oil giant Unocal is bearing the brunt of the protest. Its April 25 shareholders' meeting marked the first time that shareholders in the United States were asked to pass judgment on Burma. A surprising 14.1% voted for a resolution asking the board of directors to issue a full report on its activities in Burma.

"The Unocal meeting was incredible," says Simon Billenness, an analyst at Boston-based Franklin Research & Develop-



ment, which backed the resolution. Normally, he says, social-issue resolutions initially win only 2-7% of the vote.

There are indications that the U.S. Government is considering its own pressure tactics. The Clinton Administration recently suggested it might impose economic sanctions against Burma as part of a wide-ranging review of its relations with the country. Assistant Secretary of State for Human Rights John Shattuck will visit Rangoon soon. And some State Department officials and members of Congress met with executives from Unocal and other U.S. companies on April 14 to discuss their activities in the country.

"There's very strong sentiment in Congress about it being a gangster regime and [a feeling] that business should be very cautious in their presence," says a congressional staffer. This staffer notes, however, that the government would probably issue a code of conduct for companies rather than impose sanctions.

In Unocal's case, activists have successfully focused attention on a proposed natural-gas pipeline that the company may help build across the Burmese panhandle. The pipeline is located in an area where sources report that entire villages are being displaced and labourers conscripted to build a railway line. The accounts are based on reports from refugees who have fled the area and are now living along the Thai border. Activists charge that the same human-rights abuses will continue on the pipeline.

Unocal says that recent flights over the proposed route have turned up no evidence of displacement. "We are doing our own due diligence to ensure that the pro-

spective pipeline route is an ideal one from both an environmental and human-rights point of view," says John Imle, president of Unocal's energy-resources division.

Unocal employees spent a day in mid-April flying throughout the region at low altitudes in a Burmese Government helicopter, says Imle. Although the military refused permission to land at one village, the Unocal executive disputed claims that the area is a war zone. (The region seems to be quieter recently due to attempts by the Thai military to broker a ceasefire in the civil war between the Burmese Government and the rebels who live in the area.)

The proposed pipeline would tap two offshore blocks in which Unocal has a 47.5% interest. French oil company Total holds the balance of the shares. The two companies are negotiating a contract that could bring in the state-owned Myanmar Oil & Gas Enterprise and the Petroleum Authority of Thailand as partners. The venture would be one of the biggest investments in Burma since the bloody suppression of the democracy movement in 1988.

Unocal would not say how much money is involved. But its most recent proxy statement tells shareholders that "the project represents a potentially significant resource-growth opportunity for Unocal in Southeast Asia, one of the company's key strategic areas." Unocal also has operations in Indonesia, the Philippines and Thailand.

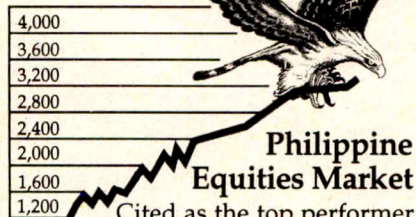
One Bangkok-based environmental group says that the project hopes to tap fields that hold an estimated 2-5 trillion cubic feet of natural gas. The proposed 260-mile pipeline would carry gas into Thailand to supply power plants. Total estimates the project will cost US\$800 million to US\$1 billion.

Other U.S. companies likely to come under pressure from protesters and the government are Texaco, which is conducting offshore explorations, and PepsiCo, which posted sales of US\$4 million in Burma last year. Levi Strauss pulled out of Burma in 1992, claiming that "under current circumstances it is not possible to do business in [Burma] without directly supporting the military government and its pervasive violation of human rights."

But Burma is likely to keep benefiting from foreign investment: investors from China and Singapore have stepped up their activities in the country in the past year. Singapore Prime Minister Goh Chok Tong became the second head of government to visit Burma when he led a trade mission there in late March.

Philippine Eagle

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8.00am	Trading Day
12.00 noon	Money Talks
12.30pm	Far Eastern Economic Review
1.00pm	Trading Day (Continued)
5.00pm	Asian Market Digest
7.00pm	The Asian Wall Street Journal On Air
7.30pm	Money Talks
8.00pm	Far Eastern Economic Review
8.30pm	Asian Market Digest (Continued)
9.30pm	The Asian Wall Street Journal On Air
10.00pm	Money Talks
10.30pm	Far Eastern Economic Review
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Tax-Break Bonanza

Election year in Sri Lanka is the country's answer to Christmas. President D. B. Wijetunga has opened up his bag of fiscal goodies in hopes the recipients will remember the generosity when they go to the polls at the end of the year.

In his May Day speech, Wijetunga announced that the government has raised the personal income-tax exemption by 50% to Rs 12,000 a month (US\$250). Even better, it's retroactive to April 1, 1993. The tax break will cover most middle-class, private-sector employees. (Those working in the public sector do not pay income tax.) The government did not reveal the cost of the measure, but one source at the Department of Inland Revenue says the resulting revenue loss would be "substantial."

And there's more. Other sweeteners include a fertiliser subsidy to farmers; the extension of a school-lunch programme that now covers 1.8 million students to all who request it; an increase in the interest rate paid on Employees Provident Fund balances to 13.05% from 11.05%; a new insurance and pension scheme for farmers and the self-employed; and an exemption from a 33% electricity-tax increase enacted last July for those consuming less than 100 kilowatt hours a month, or 80% of domestic consumers.

The public largesse follows a bumper year for the Sri Lankan economy. GDP grew 6.9% in 1993 — the highest rate in 16 years — compared with 4.3% growth in 1992, the central bank said in its just-released annual report. The surge was underpinned by a 24% rise in total investment, funded by growth in national savings and capital inflows.

Manufacturing output grew 10.5% to Rs 28.8 billion, while growth in services was up 6.3% to Rs 76.3 billion. The agricultural sector registered a 4.9% increase to Rs 31.6 billion. The budget deficit was kept at the targeted 8% of GDP, and the current-account deficit fell to 3.8% of GDP from the previous year's 4.5%.

This year, though, has begun on a less uplifting note. The overheated Colombo stockmarket, which had gained 40% in three months, began an inevitable correction process in March. It continued into April, with the all-share index shedding 47 points on April 29 — the largest one-day drop ever on the Colombo exchange. Given the market's sharp rise, many foreigners have been taking profits. Yet despite its 24% drop during March and

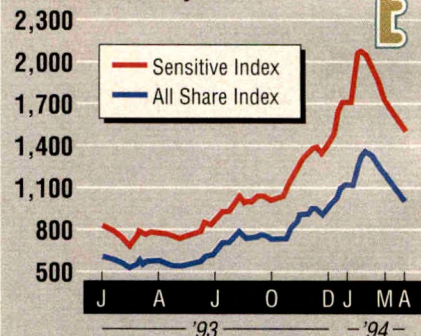
April, the index was still nearly double its reading a year ago.

On the agricultural front, the Sri Lanka Tea Board reported a record yield of 60 million kilograms for the first quarter — a 15% increase from a year earlier. But prices have suffered, dropping to Rs 68.7 per kilogram in the quarter from Rs 72.2 a year earlier. The decline is attributed to a global oversupply estimated at 150 million kilograms. Weekly offerings at the Colombo tea auctions have risen 22% to 5.5 million kilograms.

Rubber production was up a marginal 2% to 108 million kilograms in 1993. The coconut crop slid to 2.2 billion nuts from the previous year's 2.3 billion, but is expected to improve considerably in 1994 after last year's good rainfall. The major *Maha* rice crop (September 1992-April 1993) increased 2% to 1,692 tonnes and the minor *Yala* was up 23% to 872 tonnes.

Market Moves

Colombo share prices



Source: Colombo Stock Exchange

Manufactured exports — largely apparel and textiles — rose 31% in 1993. However, the trade gap widened 10% to US\$1.2 billion as export earnings rose 16% to US\$2.8 billion while import expenditures increased 15% to US\$4 billion. The central bank said domestic debt rose to US\$4.4 billion from US\$3.9 billion, while foreign debt had expanded more narrowly to US\$5.6 billion from US\$5.5 billion.

Inflation stood at an 11.2% rate at the end of March, up slightly from 11.1% the previous month but down from 12.3% a year earlier. However, the tax breaks and other election-year handouts could drive it higher. The central bank also expects more pressure from politicians for easier credit, which could compound the problem.

■ Manik de Silva

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MEDIA

Outlook: Partly Cloudy

Malaysia will legalise satellite dishes, with conditions

By Michael Vatikiotis in Kuala Lumpur

The good news is that in two years, Malaysians will be legally able to receive satellite-TV broadcasts. The bad news, for foreign broadcasters at least, is that Malaysia's skies will remain partially closed.

Aside from Singapore, Malaysia is the only Asean country that still outlaws popular use of parabolic satellite dishes. That will soon change, though. Energy, Posts and Telecommunications Minister Datuk S. Samy Vellu confirmed to the REVIEW that the cabinet recently decided to allow satellite dishes beginning in 1996.

But Malaysians won't have access to the full range of foreign broadcasts available. They'll be limited to signals from Malaysia's first satellite, Measat, scheduled for launch in September 1995.

British Broadcasting Corp. (BBC) got a taste of official attitudes towards foreign media in late April, when the state-run Radio Televisyen Malaysia (RTM) cut scenes from a BBC report on the recent race riots in neighbouring Indonesia. Malaysian officials say they only wanted to avoid offending Indonesia. That did little to assuage the BBC, which withdrew service from Malaysia on May 1, saying journalistic credibility requires that RTM use its reports in total or not at all.

Malaysia hopes to spare itself such conflicts through Measat, which will beam only approved programming. The government has ensured that Measat will use the

high Ku-band frequency, not the lower C-band frequency used by most satellites in the region, and it will limit Malaysians to use of Ku-band dishes, which cannot receive C-band transmissions. (Industry sources say Indonesia's Palapa C satellite, scheduled for launch next year, will also have Ku-band capability.)

The plan represents a compromise between the telecoms and information ministries. The former, says a senior source there, asserts that foreign programming "does not interfere with local culture," and that the government ought to allow C-band dishes, some 22,000 of which are in use anyway, in East Malaysia. The information ministry, which is responsible for domestic broadcasting, disagrees.

"My feeling is that an open-skies policy even in 1996 is unacceptable," says Datuk Fauzi Abdul Rahman, parliamentary secretary to the Minister of Information. The decision to allow dishes "may reflect what the cabinet feels, but not the [bureaucracy]."

The bureaucratic tussle may have more to do with conflicting commercial interests than with policy principles: some media analysts suspect the Ministry of Informa-

tion, which runs two TV channels, simply wants to protect local programming.

Whatever the case, Fauzi acknowledges that the government ultimately will have to allow satellite broadcasts, if only because it can't stop them outright, and that it should focus instead on controlling programme content while encouraging development of the market.

"Rather than fretting over the penetration of Western media," he says, "it is more important to play a role in transnational satellite broadcasting." The government is in a race against time and technology, however: dishes are quickly shrinking in both size and cost, making ownership all the more difficult to regulate.

That's why both ministries say that although Measat will initially carry domestic TV signals, it eventually will distribute selected foreign broadcasts. In preparation, the information ministry plans to launch, in conjunction with Measat, the Subscriber News Service (SNS). The ministry is evaluating tenders for managing SNS.

Meanwhile, preparations for the construction and launch of Measat, already delayed by a year, are said to be in hand. The US\$118 million satellite has been contracted to Hughes Corp. of the United States. It is understood that Binariang, the private company managing Measat, recently paid an instalment on the satellite, which will take 19 months to build. Neither Hughes nor Binariang would comment.

The Ku-band on which it will operate is widely used in Europe, where small, cheap dishes have helped increase viewership. In Asia, however, dense cloud cover and heavy rainfall interfere with the signals. The problem is potentially serious in Malaysia, where daily rainfall coincides with peak viewing periods. But sources close to Binariang claim the problem can be overcome using a high-powered transponder. ■

Musical Interlude

By Faith Keenan in Hong Kong

Viewers tuning in to StarTV's music channel on May 1 may have noticed something different. The same perky VJs were there, but gone were the trademark letters that brand the channel MTV Asia.

The regional satellite broadcaster and the New York-based channel known worldwide as a hangout for the hip had officially ended their two-and-a-half-year relationship. The split stems from disagreements over ownership, says a source close to the negotiations. StarTV



Where's the next market?

wanted undisclosed equity in MTV Asia and to brand it as a StarTV channel. MTV Networks, a division of Viacom International, wanted total control.

"[The issue] is the ability to own, run and control every aspect of our business," says MTV Networks Chairman Tom Freston. MTV intends to launch two versions of its channel — an encrypted channel in Mandarin, and a free-to-air English service — in the fourth quarter on the upcoming Apstar 1 satellite. That will place it in direct competition with StarTV, which is already airing its own,

music channel for four hours a day in two versions: one in Mandarin, the other in Hindi and English targeted at India.

The two will eventually vie for limited ad money. Although neither party would release figures, Freston says MTV Asia was the worst revenue performer among Star's original five channels. Industry analysts attribute the poor showing to low ratings, a limited niche, and a perception among some Asian advertisers that MTV is too racy a forum for their products. StarTV and MTV are betting that localised versions will draw more viewers, and hopefully, more ad revenue.

Freston says the channel will spend "tens of millions" of dollars to re-establish itself in Asia. He adds: "It'll be a long haul." ■

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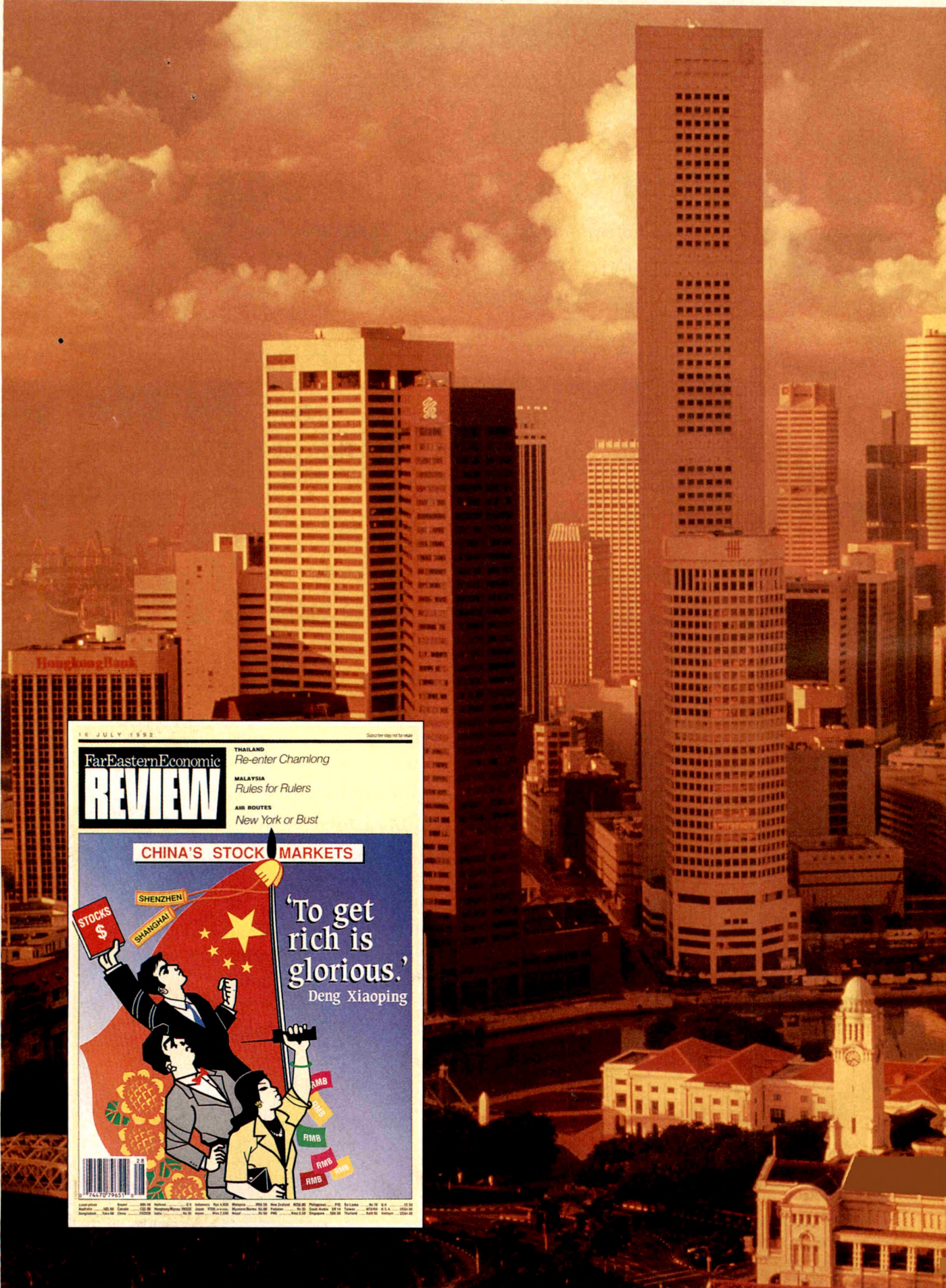
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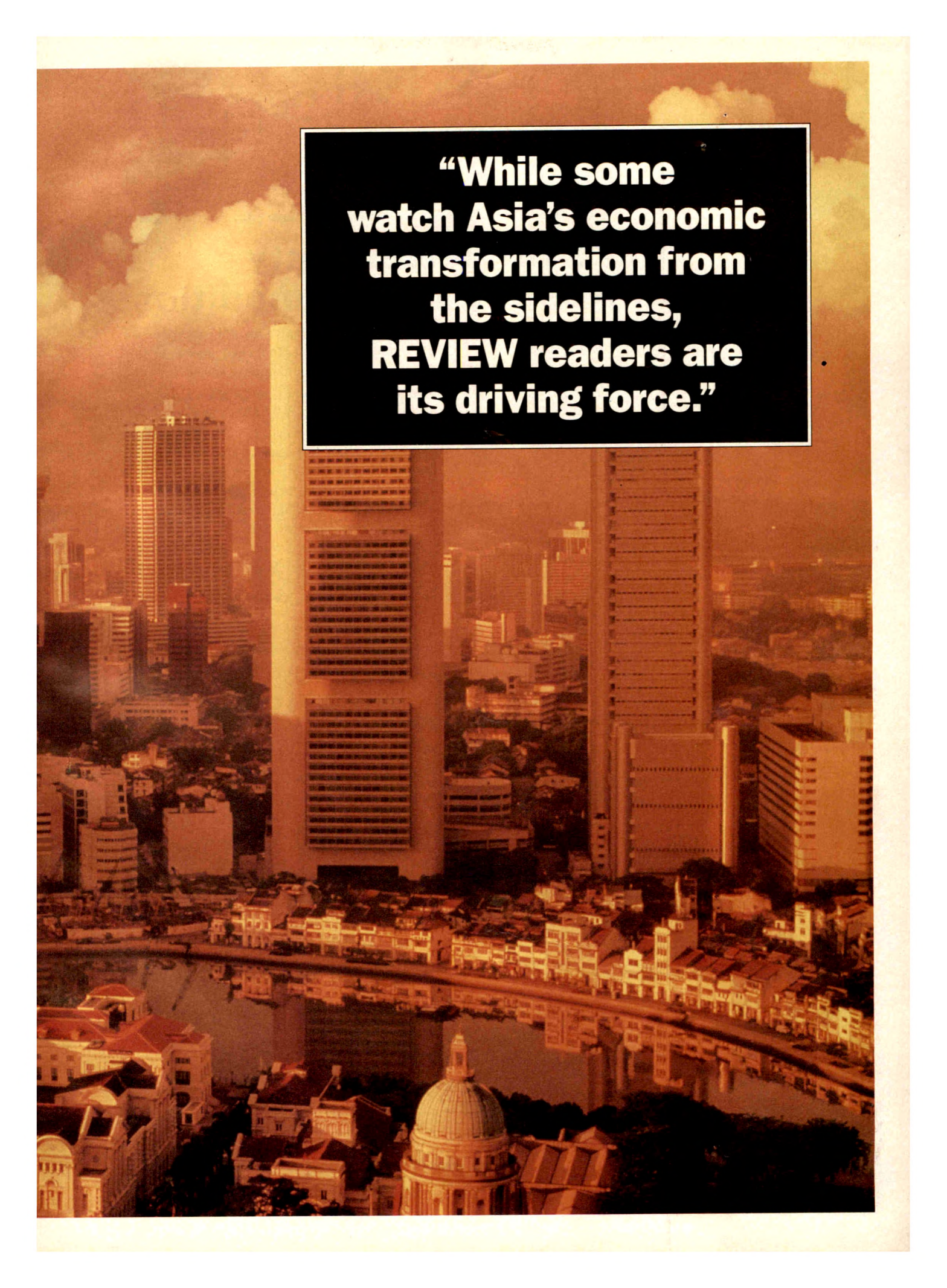
February 1994

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An aerial photograph of a city skyline at sunset. The sky is filled with large, billowing clouds in shades of orange and yellow. In the foreground, a river flows through the city, with a row of colorful, multi-story buildings lining its banks. In the background, several tall skyscrapers rise above the lower buildings. A large, black rectangular box with a white border is superimposed over the upper right portion of the image, containing a quote in white text. The overall mood is one of urban development and progress.

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Do I Hear Three?

Two giant auction houses move into China

By Kari Huus in Hong Kong

There's no accounting for taste, but the world's largest art auctioneers believe it's worth a try. Opening its Shanghai office in late April, Christie's put on a lavish US\$30 million exhibit with pieces ranging from Ming porcelain to rare stamps and Impressionist paintings, in part to see where local VIPs paused the longest.

The surprise favourite: a Renoir painting described by one auctioneer as "the large-bottomed lady sitting on a chair." Sotheby's, meanwhile, was just across town, racing to put on a similar show and establish its name in what could be one of the world's most promising art markets.

Christie's and Sotheby's, who split about 90% of the world art-auction business, are competing fiercely for the Asian market as Western economies flounder. In the last few years, the two have scrambled to open offices throughout Asia. Worldwide, ethnic Chinese are emerging as an increasingly important market. Chinese art accounts for 6% of Christie's sales, up from about 2% in 1987.

It's no great surprise, then, that the art world has had its eye on China as its economy roars along at double-digit growth rates. The only question has been: when will China's *nouveau riche* be ready for the rarefied world of art? Conventional wis-



Davidge: Christie's makes connections.

dom has it that after villas, Mercedes-Benzes and lots of electronic gadgetry, people with bloated pockets begin acquiring art. "It's a basic fact of human nature," says Julian Thompson, chairman of Sotheby's Asia. "It doesn't matter where it is. And this is just such a huge market."

Despite their grandiose openings in Shanghai, the two art giants initially will conduct a narrow range of business activities from their representative offices. (Sotheby's, in fact, has only a hotel room and a not-quite-approved representative office.) They will be limited to organising exhibitions that preview auctions else-

where, offering valuation services, and schmoozing with museum curators and potential collectors.

It might not sound like much, but building a database on who collects what, who owns what and where it came from is half the game — and one that requires good connections. "Watch who they hire," advises Stephen McGuinness, managing director of Plum Blossoms Gallery in Hong Kong. "It says a lot about their strategy."

In Shanghai, Christie's has installed Lillian Chu, daughter of a prominent Shanghai banker who emigrated to New York with his family in 1949. Chu, an Asian art expert who lived in London, followed her parents, who retired in their hometown. "Lillian will be our eyes and ears," says Christopher Davidge, Christie's chief executive officer. "Not only does Lillian know all the right people, she is *acceptable* to the right people."

Not to be outdone, Sotheby's has appointed painting specialist Gillian Tso as its Shanghai chief representative. She is the niece of Larry Yung, chairman of Citic Pacific in Hong Kong, and granddaughter of China's vice-president, Rong Yiren.

These women will rub elbows with the likes of Wang Yinnan, daughter of former Communist Party chief Zhao Ziyang and now the deputy manager of the China Guardian auction house.

Connections will help, but it probably will be a long time before Shanghai becomes a full-fledged international art centre. For one thing, the major players say international auctions won't be possible there until China has a convertible currency and adequate laws governing auc-

Jewellery: East Buys West

Hong Kong auction catalogues are packed with descriptions of "important," "translucent," "amusing" and "magnificent" jewellery. Christie's might have added the term "funky" for some of the Western pieces on the auction block in early May. They provided a sharp contrast with the jadeite pieces that dominate the market.

Normally, Western jewels go on display in Hong Kong, but are auctioned in the West, usually in Geneva. This year, for the first time in Hong Kong, Christie's offered up signed designer jewellery by Western houses such as Tiffany, Trio and Cartier, as well as 21 pieces based on the abstract images of the 20th-century painter Georges Braque.

"We're trying a bit of cross-fertilisation," says Christie's Asia jewellery department director David Warren, who

brought together the jadeite and Western collections. At Christie's jewellery sale on May 3, almost all the Braque pieces sold, often at two to three times the price estimates. The entire Western jewellery sale pulled in nearly US\$1.5 million. "We believe we've struck the tip of what could become one of the most important jewellery auction markets in the world," says Warren.

That was just one of the experiments by the two major auction houses in their effort to scoop up the Asian dollar. Recognising that some of the biggest stamp collections in the world are now in Asia, Sotheby's launched a stamp auction this year. It also exhibited Impressionist paintings, which will be auctioned soon in New York and London, in an effort to interest Hong Kong buyers in those sales.

In a move with more far-reaching im-

plications, Sotheby's auctions this year were linked by satellite to Singapore. Normally, distant collectors bid by telephone. But with video conferencing, they can also see what is going on in the room. If the experiment is deemed successful, it will mark a new step towards globalisation of auctions. "Asia has several art centres. This is a step towards drawing them all together," says Julian Thompson, chairman of Sotheby's Asia.

Still, contemporary and modern paintings, ceramics and, above all, jadeite provide the bread-and-butter business for auction houses in Asia. At the Christie's jadeite auction, the showpiece was Madame Wellington Koo's jadeite bead necklace, said to have come from the mother of Pu Yi, last emperor of China. Fierce bidding drove the price to US\$890,000, about twice its estimated price. The piece was decidedly not funky, but as the catalogue said, it was magnificent.

■ Kari Huus

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tions and transfers of art.

Moreover, the Chinese regulations that do exist make it extremely tricky for art dealers to source art for the international market. It's illegal to export any work produced prior to 1795 as well as works by several famous 20th-century artists. Both Christie's and Sotheby's say they will provide valuation services for pieces brought to them, but they don't want to be seen to encourage smuggling of Chinese treasures.

It's not clear what official position the Chinese Government will take on the origins, or *provenance*, of Chinese art brought to China for sale. Chinese Imperial wares flooded out through the 1960s, ending up mainly in European collections. Much of it, by official reckoning, could be stolen.

Several cases indicate that China won't contest titles. Indeed, only once has the Chinese Government demanded return of a piece, when a sculpture stolen from a provincial museum appeared in a Sotheby's catalogue in 1988. And many pieces with murky origins — both those that have passed from hand to hand for a century and funerary wares excavated so recently the mud is hardly dry — are bought and sold internationally with no reaction from China. The scuttlebutt is that the government itself is selling off works. "The government doesn't care about the *provenance* of a piece," insists one gallery owner. "They just don't want to be embarrassed."

Still, when Christie's brought Ming and Qing ceramics to Shanghai for display, the auction house sought special assurances that internationally accepted titles would be honoured. Hong Kong collectors, meanwhile, are concerned about the status of their valuables as the colony approaches its 1997 reunification with the mainland. The Minchu Society, representing some of Hong Kong's biggest collectors, has petitioned China for clarification, while some major collectors already have moved their treasures out of the colony.

In the short run, the major players and the local auction houses will probably focus on contemporary and modern paintings that aren't restricted. Sotheby's Thompson says it is "perfectly possible" that the company will attempt to run domestic auctions.

In the long run, both Chinese and foreign art dealers are counting on China's growing wealth to iron out some of the problems. As the Chinese Government allows the internal art market to thrive, smuggling goods out of China will probably become less attractive.

Christie's Davidge says the current flow of Chinese art might well be reversed. "It is more likely that given the size of China and the wealth that might be created, [mainland collectors] might suck in all the Chinese art around the world," he says. And after that, who knows? Perhaps Renoir's big-bottomed lady. ■

A Little Looser, Please

EU traders champ at import quota on Chinese silk

By Shada Islam in Brussels

It started off almost as a simple spring-cleaning exercise. European Commission officials, determined to streamline trade relations with China, persuaded European Union (EU) member governments earlier this year to abolish 6,000 national restrictions on imports of Chinese goods. Brussels suggested that only seven "highly competitive" Chinese products, including toys, gloves and silk shirts and blouses, should be subject to EU-wide quotas. The new system was supposed to be more efficient, more liberal and easier to manage.

It has created chaos. Particularly aggrieved are businesses in Germany and Britain, whose trade with China was virtually unrestricted before the new EU quotas. Importers and retailers say the limits have created serious shortages of Chinese silk goods, toys and leather industrial gloves in Europe, and warn that unless Brussels moves quickly to widen the quotas, hundreds of small importers will

go out of business.

The loudest gripes are over Chinese silk shirts and blouses, now subject to a 20,000-tonne annual quota. Although most Chinese textile and clothing exports to the EU are limited by a bilateral "voluntary restraint" agreement, trade in silk, ramie and linen products had been relatively free before the new quota.

"There's very limited production of silk goods in the EU," says Christopher Starns of the British Importers Confederation. "This is not a sector worth protecting."

Starns says British importers, accustomed to operating without restriction, now find themselves out on a limb. They've already contracted to import Chinese silk blouses and shirts, and arranged letters of credit. But the modest new EU quota has already been used up, he says, leaving buyers with millions of dollars in silk products they can no longer import. "Small importing companies will go bust," Starns warns.

One complaint about the new limits is

that they are based on 1992, not 1993, import figures, and therefore do not account for the hundreds of new businesses that only recently started buying Chinese silk. Konrad Neundoerfer, head of the Frankfurt-based Foreign Trade Association, which represents Europe's major retailers, says the new quotas equal only a fraction of China's "real" exports to the EU in 1993.

"We are not happy at all," he says. "Importers are getting quota allocations which are only 5-10% of their purchases last year."

Importers also complain that the EU arrived at the quotas without consulting Beijing. EU officials argue that since China is not a Gatt member, their unilateral action is justified. They also insist that the problem facing importers is the direct result of the "legal vacuum" created last year by EU governments as they haggled for months over details of European import policy.

Importers used the deadlock between EU governments to stock up on Chinese goods, says Brussels. "Importers in Germany and Britain opened the floodgates," says an EU trade official. "Suddenly there was a dramatic increase in Chinese exports of silk products to the Union." Official trade figures for 1993 are not yet available. But EU officials claim that the 1994 quota is large enough to accommodate most importers. ■

STRONG INCREASE IN EARNINGS FOR 1993

The BFCE Board of Directors, chaired by Michel Freyche, met April 6, 1994 to approve the 1993 consolidated financial statements

Key figures (Consolidated, in FRF millions)	1992	1993	Change
Net banking income	2,154	2,256	+ 5 %
Gross operating income	745	840	+ 13 %
Net income, excluding minority interests	137	202	+ 47 %
Total capital	6,600	7,300	+ 11 %
Cooke ratio	8.6 %	9.2 %	

A sharp increase in activity, particularly on the international side and in the financial markets

Consolidated net banking income for 1993 amounted to FRF 2,256 million. This 5 percent improvement over 1992 was due to an 11 percent increase in commercial banking activities, while institutional activities on behalf of the French State continued to decline gradually, representing only 12 percent of net banking income for 1993.

Substantial commercial banking growth resulted from strong development in financial market and international activities. Commercial banking in France meanwhile managed to register a slight advance, despite the unfavorable economic environment.

Gross operating income up sharply

For the fourth year in a row, operating expenses, depreciation, and amortization

were stable, enabling gross operating income to increase by 13 percent to FRF 840 million.

Prudent risk management and the high-quality BFCE client base led to a reduction in provisions from FRF 411 million in 1992 to FRF 336 million in 1993.

A sharp increase in operating income and net income

Operating income increased 51 percent to reach FRF 504 million. This strong rise enabled the bank to make a further major FRF 230 million allocation to the general banking risks fund, strengthening core equity. Net non-recurring transactions included a supplemental allocation of FRF 60 million to provide complete coverage of known retirement benefit commitments.

Consolidated net income, excluding minority

interests, rose to FRF 202 million, a sharp 47 percent advance over 1992.

Renewed strengthening of the Bank's financial base and enhanced profitability

Thanks to the increase in the general banking risks fund, income transferred to reserves, and various redeemable subordinated note issues, total capital increased by more than FRF 700 million, FRF 500 million of which represented core equity, and now stands at FRF 7.3 billion. The Bank's solvency (Cooke) ratio reached 9.2 percent at year-end, including 5.4 percent for core equity. 1994 is expected to show continued earnings improvement and greater profitability.

BFCE Banque Française du Commerce Extérieur

TRADE

Uruguay, Round 2

U.S. moves to reinforce Gatt accord worry Asians

By Susumu Awanohara in Washington

With the ink barely dry on the Marrakesh world-trade accord, legislators in the United States are pushing proposals to redress parts of the agreement they believe harmful to American companies. The moves are being watched closely by Asian trade officials and businessmen, who remain suspicious of Washington's commitment to open trade.

Among other things, the congressmen want tougher rules on patents, copyright and anti-dumping actions. If enacted, these new stipulations could be stricter than those in the Marrakesh agreement, which wound up the Uruguay Round of Gatt negotiations. The demands on anti-dumping are particularly worrying to Asian exporting nations, who had hailed the Gatt agreement on this issue as shielding them from unilateral U.S. action.

The cause of their concern is the Regula-Mineta bill. Introduced by Congressmen Ralph Regula and Norman Mineta, this voluminous measure aims to curb the Gatt accord's liberalising effects on U.S. imports and supplement those of its provisions that would pry open non-U.S. markets. A Japanese steel executive calls the bill "clearly contrary to the spirit and the letter of the Gatt agreements."

Washington could lay itself open to challenge before the new World Trade Organisation if it adopts rules that are tougher than Gatt's. But Asian trade representatives worry it could take advantage of the Marrakesh accord's often-vague language to avoid open contradictions. Or it may simply enforce the Gatt rules with especial vigour.

A more immediate fear is that the Clinton Administration might be tempted to adopt some of Regula-Mineta's proposals. The White House would like Congress to ratify the Marrakesh accord this summer so it can take effect next January — six months earlier than planned. But with the Democrats facing uphill congressional elections later this year, President Bill Clinton will be under pressure to accommodate protectionist demands.

If the protectionists succeed in influencing the administration measure — and Regula-Mineta is probably just the first of several such attempts — they may be difficult to counter. The Clinton bill, so far unpublished, will be introduced under Congress' fast-track procedure, meaning legislators can pass or defeat it, but not amend

its terms.

Despite the complexity of the Regula-Mineta bill, its protectionist intent is clear. Mineta says it aims to amend U.S. laws "to strengthen areas where implementation of Gatt could critically weaken our industry's ability to compete [at home] with unfair foreign traders." It would also help U.S. companies "gain market access in closed markets abroad," he says. Specific provisions aim to:

► Enhance U.S. industry's ability to "bring and win" dumping cases against foreigners, according to Mineta. Alleged dumpers would also find it more difficult to dis-



Clinton: protectionism through Gatt?

prove the charge, and, once found guilty, shake off the penalties later.

► Extend Gatt's rules on intellectual-property rights (IPRs) by speeding up their implementation, expanding protection to new technologies and securing market access abroad for American IPR holders.

► Give the president powerful trade-negotiating weapons to, in Mineta's words, "guarantee that U.S. companies have the same access to foreign markets that foreign companies have to our very large market." One such weapon would make it easier for Washington to identify anti-competitive practices outside the U.S. and take action against them according to U.S. law. Others would give the administration, rather than the courts, the right to decide when foreigners are violating U.S. commercial law.

Japanese steel makers are particularly concerned about the bill, fearing a renewed fight over their exports. (They note that Regula is vice-chairman of the congress-

sional steel caucus.) The U.S. last year rejected an anti-dumping suit against Japanese hot- and cold-rolled steel sheets.

Exporters in South Korea, Taiwan and Hong Kong, many of them subjected to frequent anti-dumping or anti-subsidy complaints in the U.S., may also be threatened. Their affiliates in Southeast Asia are increasingly coming under scrutiny, too. American trade hawks accuse Japanese, South Korean and Taiwanese companies of circumventing U.S. trade laws by manufacturing offshore.

The Marrakesh accord tightened Gatt's rules on anti-dumping actions and limited penalties to five years' duration. However, penalties can be enforced for longer under certain conditions. During the Gatt negotiations, the U.S. tried to preserve the current practice of "maintaining the penalties until the domestic petitioners no longer care," says Washington lawyer James Durling, who represents several Japanese companies. The Regula-Mineta bill attempts to put new and, the critics say, onerous requirements on offending exporters to prove that dumping and injury have stopped before penalties can be lifted.

Yoshitaka Fujitani, president of NKK America, also points out that under Regula-Mineta, future petitioners need represent only 25% of a domestic industry — not the current majority — to be able to file suit. In addition, the bill would lower the "negligibility" standard so that even relatively small offenders will be caught. And the calculation of import penetration, crucial in determining whether dumping hurts domestic firms, would be changed in petitioners' favour.

Regula acknowledges that he and Mineta have "submitted the points we're concerned about" to the administration and "they're very interested in the reaction we get to this." The two congressmen, as well as others who are said to be preparing Gatt responses, want their proposals to be incorporated into the White House bill.

Despite its concern, Japan hasn't expressed official opposition to the proposals. This partly reflects the vacuum in Tokyo, where the new Tsutomu Hata government is struggling to find its feet. Tokyo may also feel it has enough trade problems with Washington already. Similar reticence is being displayed by Japanese big-business groups such as the Keidanren. Aside from steel makers, however, Japanese machinery exporters, including those in electronics, are beginning to worry about the bill.

Some hope that other exporters to the U.S., together with U.S.-based multinationals and American users of foreign inputs, will dampen Washington's protectionist impulses. But, as Bruce Aitken of the Pro Trade Group, a lobby of multinationals, puts it: "The opponents of the Regula-Mineta bill are not yet active, and time is running out." ■

BUSINESS BRIEFING

VIETNAM

BP Joins Venture

British Petroleum will open a US\$28 million lubricant plant in a joint venture with Vietnam's Petrolimex. The blending plant, to be built in Ho Chi Minh City, will produce an annual 50,000 tonnes of lubricant.

JAPAN

Car Exports Hit Low

Japanese car exports in the year to March 1994 fell below five million units for the first time in 14 years. A strong yen and the rapid increase in overseas production contributed to the 18.3% drop.

THAILAND

Investment Bait

The Council of Economic Ministers, in a bid to increase direct foreign investment, approved amendments to the



Easier Thai retailing.

foreign-investment code loosening restrictions on wholesaling, retailing and food-and-beverage services. The amendments require cabinet approval.

PHILIPPINES

IMF Approval

Finance Secretary Roberto de Ocampo said the IMF and Manila have signed a draft letter of intent for a three-year, US\$650 million economic programme.

Long-Distance Service

Three companies have been awarded contracts to handle international phone calls, bringing to eight the number of firms involved in the lucrative service. The firms are Smart Communications, Isla Communications and Capitol Wireless.

Court Blocks Lottery

The Supreme Court stopped the government from implementing its contract with Philippine Gaming Management Corp. to run a lottery, ruling that the arrangement is illegal.

TAIWAN

Formosa Plastics Loan

Taiwanese and Japanese banks have syndicated a NT\$143 billion (US\$5.4 billion) loan for Formosa Plastics to build a naphtha cracker on Taiwan's west coast. The syndication, led by state-run Chiaotung Bank, included 30 banks from Taiwan and five from Japan. The 6.5% loan is the largest ever made in Taiwan, said Liang Guo-shu, chairman of Chiaotung Bank.

BANGLADESH

Power Credit Approved

China National Machinery & Equipment Import & Export Corp. will provide US\$120 million in credit to build a second unit for the Raozan power plant in Chittagong. The 210-megawatt gas-fired unit is set to be completed in three years.

CHINA

AT&T Switches On

American telecommunications company AT&T signed an agreement with Beijing to invest US\$150 million in telecoms equipment, technology, and network-



More telephones for China.

planning projects over the next two years. Joint ventures will be established in Chengdu and Qingdao to make switches capable of serving 2 million phone lines. A joint venture will also be created to supply chips for AT&T's China operations.

IPR Decision Delayed

The United States postponed until June 30 a decision on whether to declare China a major pirate of American books, music, movies and computer software. U.S. Trade Representative Mickey Kantor said the delay allows the Clinton Administration to avoid complicating an already difficult decision — due by early June — on extending China's most-favoured-nation trading rights. Some officials say China has failed to live up to a 1992 agreement calling for Beijing to improve protections for foreign firms' intellectual property rights.

Conglomerate Building

To compete with foreign imports after Beijing's expected accession to Gatt, Beijing will merge its 120 state-run car makers into six or seven conglomerates by 2000, says the official *China Daily*. Early next century, the state-supported conglomerates will be further merged into three or

four giant firms to produce an estimated five million cars annually. China will continue to protect domestic car makers with tariffs and import quotas for another 10 years.

Goodyear-Dalian Project

U.S. rubber giant Goodyear will produce tyres for the Chinese market through a joint venture with the Dalian Rubber Factory. Goodyear will own 75% of the venture and invest US\$30 million to upgrade the Dalian plant. The venture aims to produce 1.4 million tyres annually.

INDIA

Temple Borrowing

The Tirupati temple in Andhra Pradesh, a shrine to the Hindu god Venkateswara, will enter the capital market to raise Rs 500 million (US\$16 million) for expansion projects. The temple's governing board will issue 15-year bonds at 8% annual interest.

LAOS

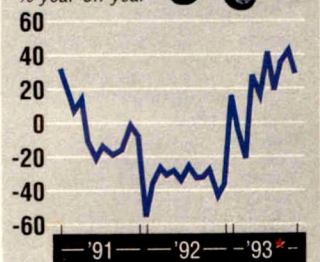
New Investment Law

Vientiane introduced a foreign-investment law that streamlines regulations and tax structures. The measure includes a flat corporate tax of 20% and permits 100% foreign ownership.

Indicators

Consumer demand for vehicles in Indonesia

% year-on-year



* To Oct.

Source: Smith New Court

PRICES & TRENDS

Commodities

Latest sale to May 2		Latest	Previous week	3 months ago	Year ago
Gold	London (2)	376.50	372.90	376.40	356.50
Copper	New York (3)				
Current delivery (May)		91.35	89.45	85.70	83.70
July delivery		91.50			
Aluminium	London (7)				
Current delivery (Apr.)		1,281.50	1,259.50	1,220.00	1,115.00
Tin	Kuala Lumpur (1)	14.40	14.19	13.99	14.01
Cotton	New York (3)				
Current delivery (May)		86.00	81.09	75.86	60.50
July delivery		83.22			
Rubber	Kuala Lumpur (8)				
Current delivery (May)		255.50	255.00	227.00	210.00
June delivery		255.50			
Jute	Dhaka (11)	260.00	260.00	260.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (May)		1,204.00	1,138.00	984.00	914.00
July delivery		1,060.00			
Sugar	New York (3)				
Current delivery (May)		11.87	11.66	10.47	12.82
July delivery		11.49			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		232.50	237.50	240.00	160.00
Wheat	Chicago (5)				
Current delivery (May)		326.40	314.60	364.20	348.00
July delivery		330.60			
Maize	Chicago (6)				
Current delivery (May)		269.00	259.00	290.00	228.00
July delivery		272.00			
Rice	Bangkok (7)				
5% white job		375.00	375.00	410.00	237.00
Soyabeans	Chicago (5)				
Current delivery (May)		677.20	658.60	683.60	588.60
July delivery		676.40			
Cocoa	New York (7)				
Current delivery (May)		1,120.00	1,104.00	1,133.00	907.00
July delivery		1,128.00			
Coffee	New York (3)				
Current delivery (May)		89.15	84.25	74.60	63.50
July delivery		89.50			
Petroleum					
Sumatran light	Tokyo (10)	15.00	14.80	14.75	20.45
Brent	London (10)	15.81	15.86	14.22	19.18

(1) M\$ a kg (2) US\$ an oz (3) US\$ a lb (4) M\$ a tonne (5) US\$ a 60 lb bushel
 (6) US\$ a 56 lb bushel (7) US\$ a tonne (8) Int 1RSS Mc a kg (9) S\$ a 100 kg (10) US\$ a barrel
 (11) BWD, Chittagong/Mongla, US\$ a tonne Source: Telerate, International Jute Organisation

Currencies US\$1 worth:

May 2		Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.4063	1.3924	1.411	1.417
Bangladesh*	taka	40.46	40.20	39.75	38.90
Britain	pound	0.6598	0.6708	0.66357	0.6392
Brunei	dollar	1.555	1.5565	1.5929	1.6135
Burma	kyat	6.10	6.1811	6.2161	6.265
Canada	dollar	1.382	1.3765	1.3301	1.2675
France	franc	5.645	5.771	5.883	5.329
Germany	mark	1.6492	1.6835	1.7328	1.5819
Hong Kong	dollar	7.7255	7.7268	7.7225	7.7285
India*	rupee	31.37	31.37	31.39	31.3493
Indonesia	rupiah	2,149.00	2,150.00	2,120.00	2,074.00
Japan	yen	101.63	103.17	108.23	110.79
Macau*	pataca	8.10	8.10	8.10	8.05
Malaysia	dollar	2.6815	2.691	2.7585	2.565
Nepal*	rupee	49.25	49.25	46.3772	45.5232
New Zealand	dollar	1.7358	1.74216	1.7544	1.8416
Pakistan	rupee	30.5195	30.5195	30.1998	26.6733
Papua N.G.	kina	0.9553	0.9579	0.9641	0.9652
Philippines	peso	27.101	27.535	27.651	26.988
Singapore	dollar	1.555	1.5565	1.5929	1.6135
South Korea	won	807.90	807.40	808.10	796.00
Sri Lanka	rupee	47.497	47.633	47.965	46.4695
Switzerland	franc	1.4027	1.433	1.456	1.4305
Taiwan	NT dollar	26.419	26.41	26.42	25.9225
Thailand	baht	25.17	25.23	25.42	25.19
Communist countries:					
	China US\$=Rmb 8.6847 HK\$=Rmb 1.124 Laos US\$=Kip 720				
	Vietnam US\$=Dong 10,950				
Other:					
	Commonwealth of Independent States US\$=Rouble 1,820				
	SDR1=US\$1.42469 ECU1=US\$1.1712 S\$1=M\$1.7203 Cambodia US\$=Riel 3,500				

*Official rate †Middle rate Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

	1 month	3 months	6 months	12 months	10 year govt bonds yield
May 2					
US\$	3.9375	4.25	4.625	5.3125	7.00
Sterling	4.9375	5.0625	5.25	5.6875	8.01
Yen	2.21875	2.1875	2.34375	2.50	4.12
Swiss Fr.	3.8125	3.875	3.875	3.875	—
Dm	5.3125	5.1875	5.125	5.125	6.63
AS	4.50	4.625	4.8125	5.5625	8.21
C\$	5.50	5.75	6.13	6.50	8.12
ECU	5.6875	5.625	5.625	5.625	7.31

†Offered rate Source: Telerate, Salomon Brothers

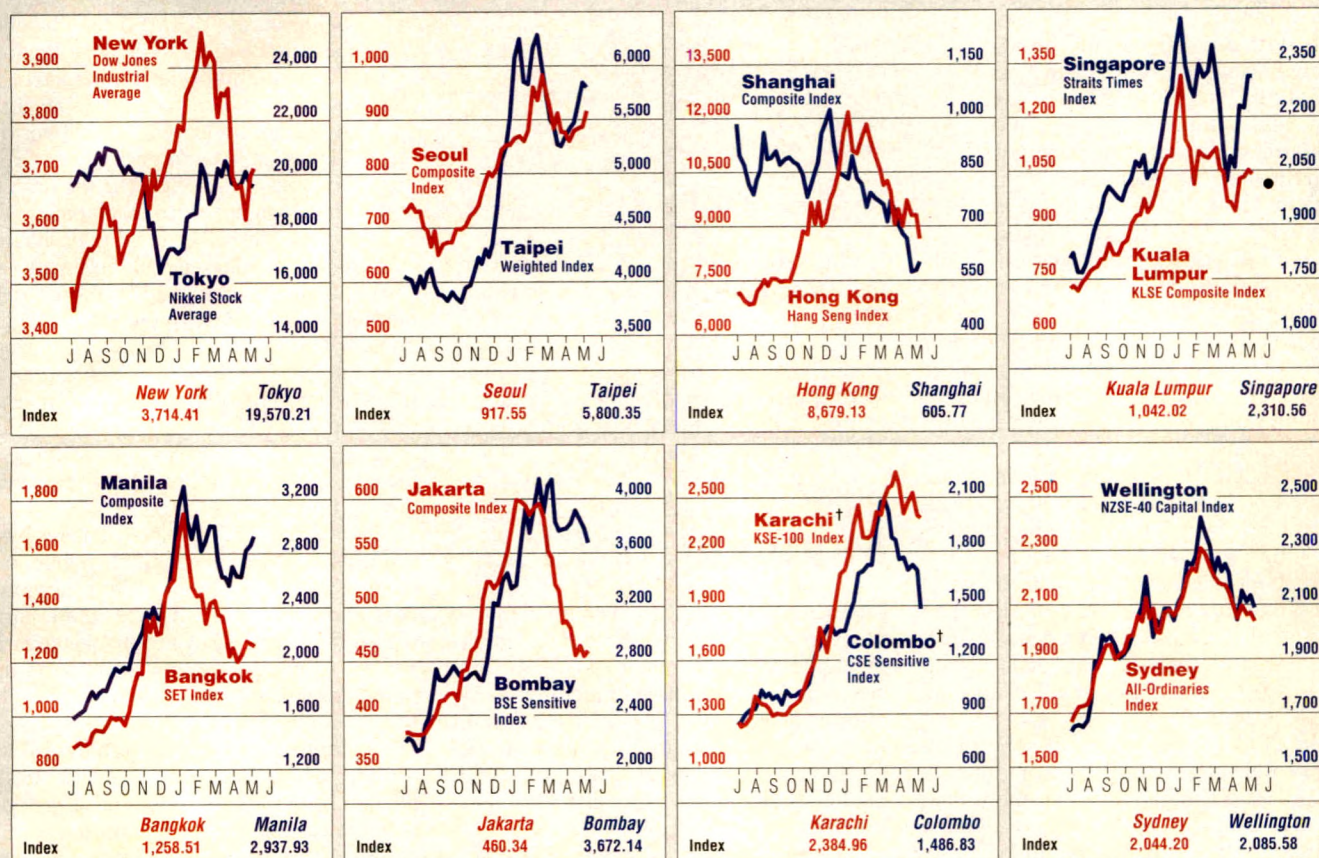
Economic Indicators, Selected Asian Countries

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1993	2.8	13.4	5.6	4(4)	6.7	0.2	8.5
1994	3.4	9	4	5(4)	7	2.6	8.4
International Reserves (5)							
Latest	US\$11.53b (Feb)	US\$22.08b (Nov)	US\$28.9b (Dec 91)	US\$13.51b (Feb)	US\$11.37b (Jan)	US\$101.42b (Feb)	US\$27.25b (Dec)
Year earlier	US\$9.61b	US\$23.28b	n.a.	US\$5.56b	US\$10.88b	US\$72.14b	US\$17.23b
Trade Balance (total merchandise)							
Latest 3 months	+US\$0.07b (Sept-Nov)	-US\$6.04b (Nov-Jan)	-US\$1.78b (Jan-Mar)	+US\$0.02b (Dec-Feb)	+US\$2.05b(8) (Nov-Jan)	+US\$30.97b (Jan-Mar)	-US\$0.26b (Sept-Nov)
Previous 3 months	-US\$0.32b	-US\$2.46b	+US\$0.02b	-US\$0.24b	+US\$2.17b	+US\$31.34b	+US\$0.67b
Year earlier	+US\$0.15b	-US\$0.97b	-US\$1.30b	-US\$0.41b	+US\$2.49b	+US\$29.18b	+US\$0.89b
Exports (6)							
Latest 3 months	US\$10.90b	US\$27.27b	US\$31.03b	US\$5.98b	US\$9.05b(8)	US\$91.98b	US\$12.43b
% change previous 3 months	+3.5	+11.2	-14.2	+13.5	-4.1	-0.6	+2.3
% change year earlier	unchanged	+17.5	+8.6	+19.0	-6.3	+6.0	+11.0
Imports (7)							
Latest 3 months	US\$10.83b	US\$33.32b	US\$32.81b	US\$5.96b	US\$7.00b(8)	US\$61.01b	US\$12.69b
% change previous 3 months	-0.2	+23.4	-9.3	+9.1	-3.6	-0.3	+10.6
% change year earlier	+0.8	+37.8	+9.8	+11.9	-2.4	+5.9	+23.1
Consumer Prices							
Base	Jul 89-Jun 90=100	Feb. 1993=100	Oct 89-Sept 90=100(2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	110.0 (Oct-Dec)	123.2(11) (Feb)	141.7 (Jan-Mar)	264.0 (Dec-Feb)	152.8 (Jan-Mar)	106.5 (Nov-Jan)	115.3 (Nov-Jan)
% change previous 3 months	+0.2	n.a.	+1.3	+0.8	+3.2	-0.5	+1.6
% change year earlier	+1.9	+23.2	+7.3	+5.7	+7.9	+1.0	+3.5
Money Supply (3)							
Latest	A\$241.3b(9) (Feb)	Rmb 3,007.59b (Oct-Dec)	HK\$950.53b (Mar)	Rs 4.28t(9) (Feb)	Rps 149.34t (Mar)	¥508.75t (Feb)	M\$131.97b (Nov)
% change previous month	+0.5	+9.1(10)	+0.1	+1.6	-1.5	+0.3	-0.6
% change year earlier	+6.9	+23.6	+20.8	+14.7	+21.3	+1.5	+18.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) To March (5) IMF definition of reserves minus gold except for Singapore

Stockmarkets

■ ■ ■ Hong Kong plunges through 9,000 mark in 7% drop ■ ■ ■ Tokyo drops slightly during holiday week ■ ■ ■ Kuala Lumpur, Taipei, Bangkok stumble ■ ■ ■ Singapore sees little change ■ ■ ■ Manila advances moderately ■ ■ ■ Seoul picks up 3% in week ended on May 3 ■ ■ ■



Morgan Stanley Capital International Index = 617.5 (May 2)

Source: †Smith New Court (Far East Ltd.)

Interest Rates (%)

Philippines	Singapore	South Korea	Taiwan	Thailand
3 4.5	9.8 6-8	4.9 6.3	6.03 6.2	7.5 7.8-8.5
US\$4.79b (Jan) US\$5.14b	US\$48.36b (Dec) US\$39.89b	US\$20.71b (Feb) US\$18.04b	US\$84.10b (Jan) US\$82.52b	US\$25.29b (Feb) US\$20.81b
-US\$1.89b (Nov-Jan) -US\$1.70b -US\$1.27b	-US\$3.17b (Dec-Feb) -US\$1.98b -US\$3.15b	-US\$2.61b (Jan-Mar) +US\$1.20b -US\$1.70b	+US\$0.25b (Jan-Mar) +US\$2.26b +US\$1.34b	-US\$2.35b (Oct-Dec) -US\$1.32b -US\$2.77b
US\$3.09b +3.1 +24.8	US\$18.57b -8.8 +14.6	US\$19.95b -13.0 +9.3	US\$20.14b -7.6 +0.5	US\$9.89b +1.3 +11.4
US\$4.98b +5.9 +33.0	US\$21.74b -2.7 +12.3	US\$22.56b +3.9 +13.1	US\$19.90b +1.9 +6.4	US\$12.25b +10.5 +5.1
1988=100 188.0 (Dec-Feb) +2.5 +9.3	Sept 87-Aug 88=100 117.5 (Dec-Feb) +1.3 +3.3	1990=100 126.9 (Jan-Mar) +2.7 +6.5	1991=100 109.5 (Dec-Feb) +1.3 +3.8	1986=100 137.1 (Oct-Dec) +0.6 +3.9
P480.02b(9) (Dec) +7.7 +24.6	S\$81.39b (Jan) -0.9 +8.6	Won 112.90t (Mar) +0.3 +15.8	NT\$10.42t (Feb) +1.4 +14.8	Baht 2,488.0b (Jan) -1.0 +16.5

(6) feb (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month

Source: Official statistics

	May 2	Prime lending	Interbank 1 month†	Interbank 3 months†	Interbank 6 months†
Australia	9.50	4.82813	4.875	5.0625	
Britain	5.25	5.0625	5.25	5.4375	
Hong Kong	6.75	3.625	4.3125	4.75	
Indonesia	18.00	12.50	13.00	13.50	
Japan	4.40 **3.00	2.3125	2.3125	2.4375	
Malaysia	7.20	4.25	4.30	5.30	
New Zealand	9.50	6.17	6.20	6.25	
Philippines	18.00	13.4375	13.125	12.6875	
Singapore	5.25	3.75	3.875	4.0625	
South Korea	††12.20	—	—	—	
Taiwan	7.625	—	—	—	
Thailand	10.25	9.00	9.00	—	
U.S.	6.75	4.00	4.3125	4.6875	

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate Source: Telerate and Review Data

SHROFF

HONG KONG

Room to Grow

Asian stockmarkets may be in the doldrums, but Hong Kong mutual-fund companies are finding plenty of ways to drum up business.

Fidelity Investments has just launched a Latin American fund, and Jardine Fleming is reopening its funds to new investors after slamming the door shut earlier this year. Meanwhile, the Hong Kong Investment Funds Association (HKIFA) has published a helpful guide to mutual-fund investing.

But perhaps the most significant move so far this year: Japan's mighty Nomura has decided to chase after retail investors in Hong Kong by offering its own range of mutual funds.

Just what Hong Kong needs: more funds, sceptics may say. True, there are already more than 500 Hong Kong-authorized funds. But Shroff thinks Nomura has the right idea: its new funds will charge an up-front fee of only 1%. That's far less than the 5-6% that almost all other funds extract from investors. Only Regent Pacific Group funds are cheaper; they don't charge an initial fee at all.

Bryan Horner, associate director of investment management at Nomura International (Hong Kong), notes that more than half of all mutual-fund assets in the United States are in funds that have minimal or no sales charges. "Eventually, all Hong Kong companies will have to" reduce their initial charges, he says.

Nomura hopes to have about US\$200 million in mutual-fund assets under management by year-end. That sounds awfully modest. After all, two of the colony's giants, Jardine Fleming and Fidelity, have more than US\$4 billion in Hong Kong-authorized funds. But a combination of low charges, slick marketing and the Nomura name could well pull in a lot more than US\$200 million.

First, though, Shroff thinks funds such as Nomura need to educate people about mutual-fund investing in general. Fund companies often say that only 2% of Hong Kong's people invest in mutual funds. If that's true, then funds have a lot of room to grow.

The funds recognise the challenge and are doing something about it. The HKIFA has just published its first members' directory listing the colony's mutual funds, their minimum investment levels and sales charges. (HK\$30 from the HKIFA, 25/F

Nomura's New Funds

Equities

Asia
Asian emerging markets
Japan
Hong Kong
Singapore & Malaysia
China

Others

Global bond
Liquidity
Minimum investment:
US\$5,000 (equity funds);
US\$10,000 (non-equity funds)
Initial charge: 1%

Source: Nomura Trust (Cayman) Ltd.

Jardine House, 1 Connaught Place, Central, Hong Kong. Tel: 537-9912. Fax: 877-8827.)

That should help fund companies put across a simple message: investing beats buying property or playing the ponies at Happy Valley racetrack. ■ John M. Leger

CHINA

Innovate, or Else

Inefficiency has its cost. For the Chinese Government, the cost these days entails giving up control of state-owned industrial behemoths, in return — hopefully — for improved efficiency. It is still a reluctant surrender. But change is increasingly being forced on Beijing as it grapples with the losses afflicting well over half of state firms.

The stockmarket listing of state enterprises, for example, is already turning into a creeping privatisation. Merchant bankers originally sold Beijing on the listing concept as a way of attracting capital without losing control. In fact, state control of the companies now listed in Hong Kong and elsewhere will inevitably diminish. As they raise further capital through rights issues (of which there are many in the pipeline), the government will have to cough up funds to protect its stake or accept dilution.

Further evidence of enforced innovation is provided by the government's recent sale to a private company of its 35% controlling stake in Shanghai Lingguang Industrial, a struggling producer of silicon for semiconductors. The stake was bought by Hengtong Enterprise, a property and transport firm in Zhuhai, a special economic zone near Macau.

Investment bankers, particularly at firms with experience in other emerging markets such as Latin America, pray there will be other innovations to come. In the financial area, for example, debt-for-equity

swaps would be one way for Beijing to bail out the country's banks, most of which are being dragged down by bankrupt state firms that can't repay loans. But equity swaps require a drastic discount to the face value of the debt. So far, that has been impossible to achieve because Chinese authorities are reluctant to admit that their enterprises are anything less than 100% creditworthy. "How can we buy the debt at a reasonable price?" wonders the head of the Shanghai office of a Japanese securities firm. "That is the problem."

Perhaps the markets will help usher in a new realism. In the international debt market, spreads have widened on China paper. Both the global Ministry of Finance issue launched at the end of February and the more recent offer by China International Trust & Investment Corp. now trade at spreads almost twice as wide as those of the original offers, and dealers report little buying interest.

Meanwhile, China-related shares have been hard hit in Shanghai, Shenzhen and Hong Kong. The slump reflects nervousness about the economy, corporate earnings and an increase in supply of shares, as well as Chinese investors' new-found appetite for Beijing's domestic bonds. The picture is almost the reverse of last year's. Then, there were too few shares to go round. "The peak was the result of an imbalance between supply and demand," says Li Qian, spokeswoman for the Shanghai Stock Exchange. "Last year, the share prices went much too high. If the price-earnings ratio is now 19 rather than 30 [actually it is more like 11], that is a good, not a bad, thing."

Maybe; but who can predict where the bottom is? The number of B-share counters is set to double this year to 50, according to Li, and the new batch of H-shares to be listed in Hong Kong will further drain liquidity. A-share investors, meanwhile, have been alienated by payment of dividends in shares rather than cash. In addition, controls on lending for securities trading have been tightened.

Beijing may be tempted to ignore the plight of share investors, at least until it completes its bond sales, but it cannot do so indefinitely. The markets are too important a lifeline. Sustaining investment sentiment, however, will undoubtedly require Chinese officials to continue to adapt their ideas. They could start by showing a willingness to cede control of some of the better companies in Beijing's stable. So far, its priority has been to list the needy rather than the worthy. ■ Henry Sender

Immigration

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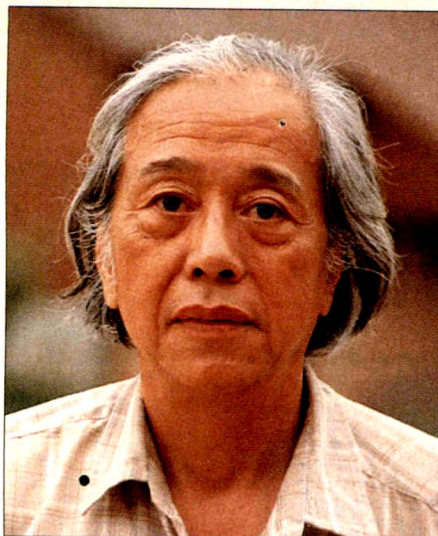
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PROFILE

Shi Ming

Taiwan

An Endangered Species

Once exiled, Taiwan's most fervent Marxist and advocate of independence returns home as feisty as ever

By Julian Baum

Lecturing from his office-residence across the street from one of Taiwan's most conservative universities, Shi Ming gives no sign of having lost his bite. A staunch advocate of Taiwan's independence and a Marxist, he is as fearless today as he was before he sneaked back onto the island in a fishing boat last summer, ending four decades in exile. "We're working to publicise Taiwanese nationalism and to organise the masses," he explains earnestly. "We need to organise the 'putsch bourgeoisie' among the middle and working classes to rise up against the Kuomintang."

That rhetoric hardly endears the 77-year-old activist to a capitalist government that was driven from the Chinese mainland by communist forces in 1949. Shi is aware of the difficulties he faces, but presses on with his well-worn arguments. The biggest obstacle to the revolution, he has written, is the compradore elite that has cooperated with the "colonial regime of the Chiang-family clique."

Sounding almost charmingly passé, Shi's Marxist ideas were considered seditious less than two years ago when he was at the top of the Taiwan Government's blacklist and his writings were banned as counter-revolutionary. Now settled in Taipei, his radicalism seems much less threatening than when he was based in Tokyo from 1952-93. Greyer and more wrinkled than when he began his crusade, Shi remains oddly committed to what many of his admirers admit is a hopeless cause for a hopelessly middle-class society.

Divorced from his Japanese wife and living as a bachelor, Shi says his followers number only in the hundreds, though during the last decade of martial law, which ended in 1988, he had as many as 3,000-4,000 clandestine supporters on the island.

Yet the mild-mannered revolutionary advocates a reasoned commitment to Taiwanese nationalism that commands re-

spect even from the opposition Democratic Progressive Party (DPP), which he disparages for abandoning its founding principles and pursuing private profit.

Shi is best known for writing *400 Years of Taiwan History*, a Marxist interpretation of history first published in Japan in 1962 and smuggled into his homeland. Widely circulated in pirated editions, the 1,540-page volume narrates the rise of the "Taiwan nation" from the aborigines and Dutch "merchant-pirates" through the "Japanese imperialists" and "Chiang-clique fascists" who ruled during the past century.

Shi's innate radicalism dates from his student years at Waseda University in Tokyo in the late 1930s. Moved by Chinese efforts to resist Japanese colonialism, he became a guerilla fighter in northeast

**Taiwan is in
a state of crisis.
We need a
revolution**

China after graduation. Eventually, he joined the Communist Party, working in its underground movement until 1949, when he quit, openly calling the communists "fascists" for their murderous policies against landlords.

On his return to Taiwan, Shi took up the cause of the island's independence while retaining his Marxist leanings. Putting his thoughts into action, he organised a renegade group of several dozen people to assassinate Gen. Chiang Kai-shek, whom he regarded as leader of a colonial army. His band of revolutionaries was soon uncovered, however, forcing him to escape from Taiwan by catching a banana boat for the Japanese port of Kobe, where he sought political asylum.

Shi devoted the next 40 years to a stub-

born fight for an independent socialist state, though he spent much of his time operating a noodle shop in the Shinjuku district of Tokyo. He was labelled a dangerous opponent of the Kuomintang, and several hundred of his followers were jailed. One supporter was executed in 1974. In May 1991, five supporters were arrested for distributing copies of his literature and video-taped lectures.

The police action set off numerous street demonstrations against Taiwan's sedition laws, which were later amended to punish only actions, not words. The five dissidents were eventually acquitted in a decision which human-rights lawyers described as a landmark for free speech.

Unique in the annals of Taiwan's politics for his unflinching commitment to a type of primitive Marxism and his fervent Taiwanese nationalism, Shi has little in common with other Taiwanese socialists, who advocate unification with mainland China. "These people are illogical," he explains, "because by the time Taiwan unifies with the mainland, the Chinese Communist Party will be dead and gone."

To be sure, Shi does have some supporters, including several in the opposition movement such as legislator Lu Hsiu-yi and Chen Fang-ming, spokesman for the DPP. "One reason we admire him is he believes what he believes," says Chen. "We understand the prospects for his revolution are quite pessimistic, but he still insists on his goals. In this consumer society, he's an endangered species."

After his illegal entry last year, Shi's status with the authorities remains unsettled. He travels freely, though, even holding private classes for those who will listen. As always, his argument is the same. Speaking recently at Soochow University — where one of Chiang's grandsons is president — he told students, "Taiwan is in a state of crisis. We need a revolution, not more elections."

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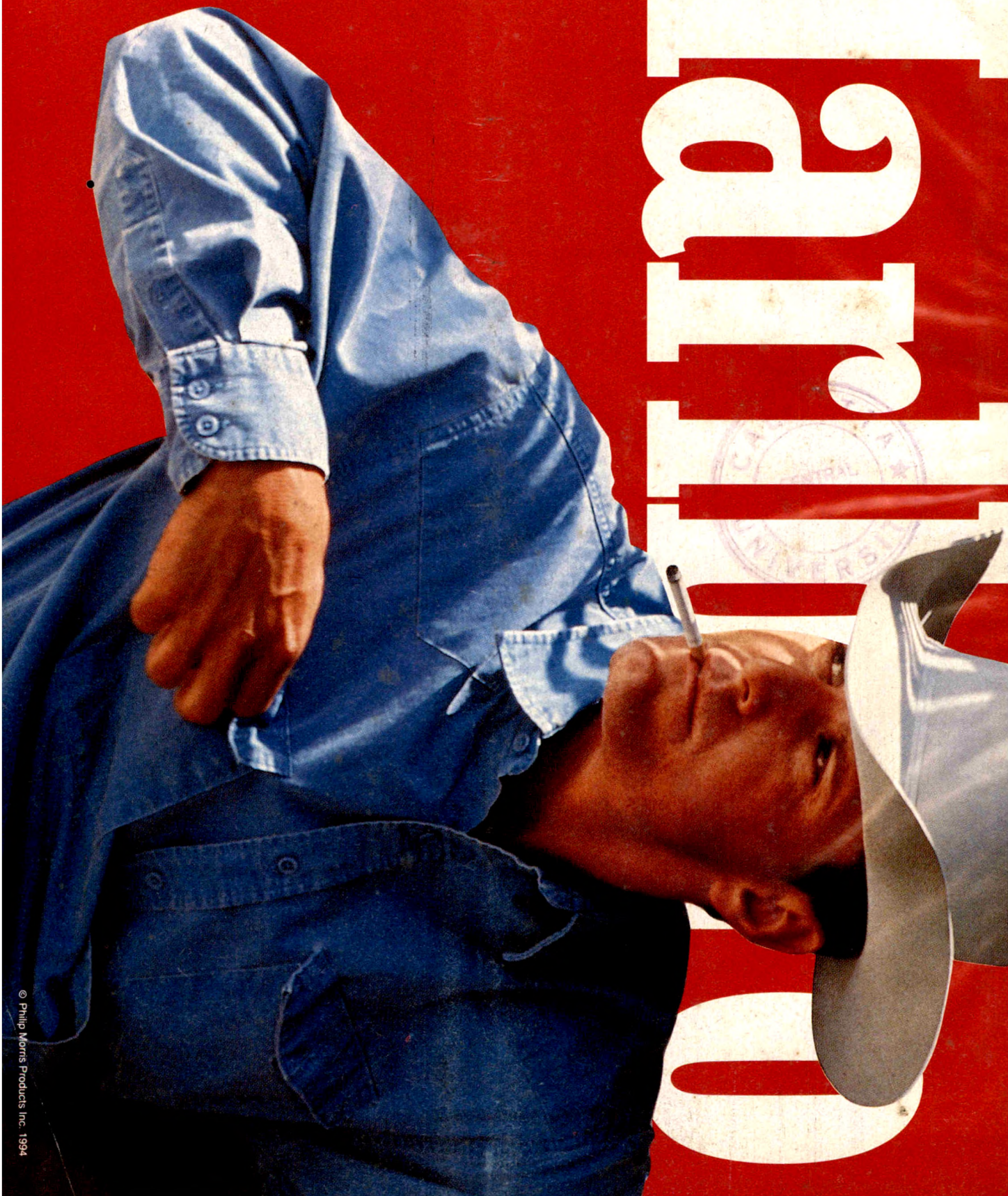
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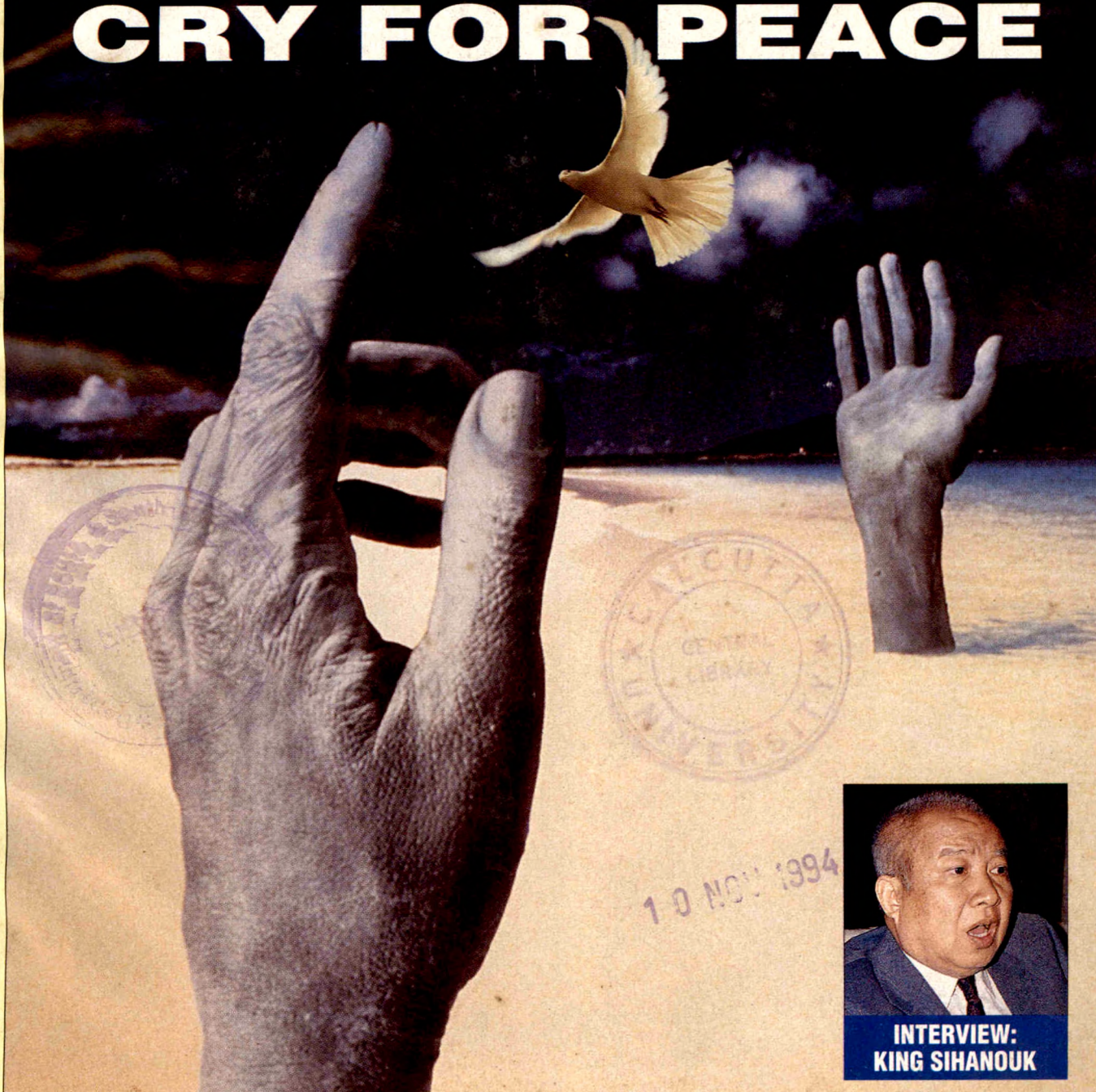
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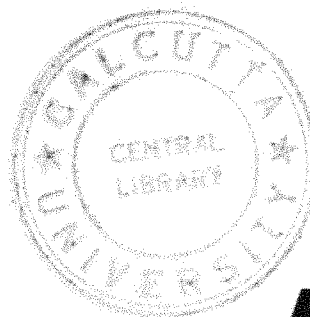
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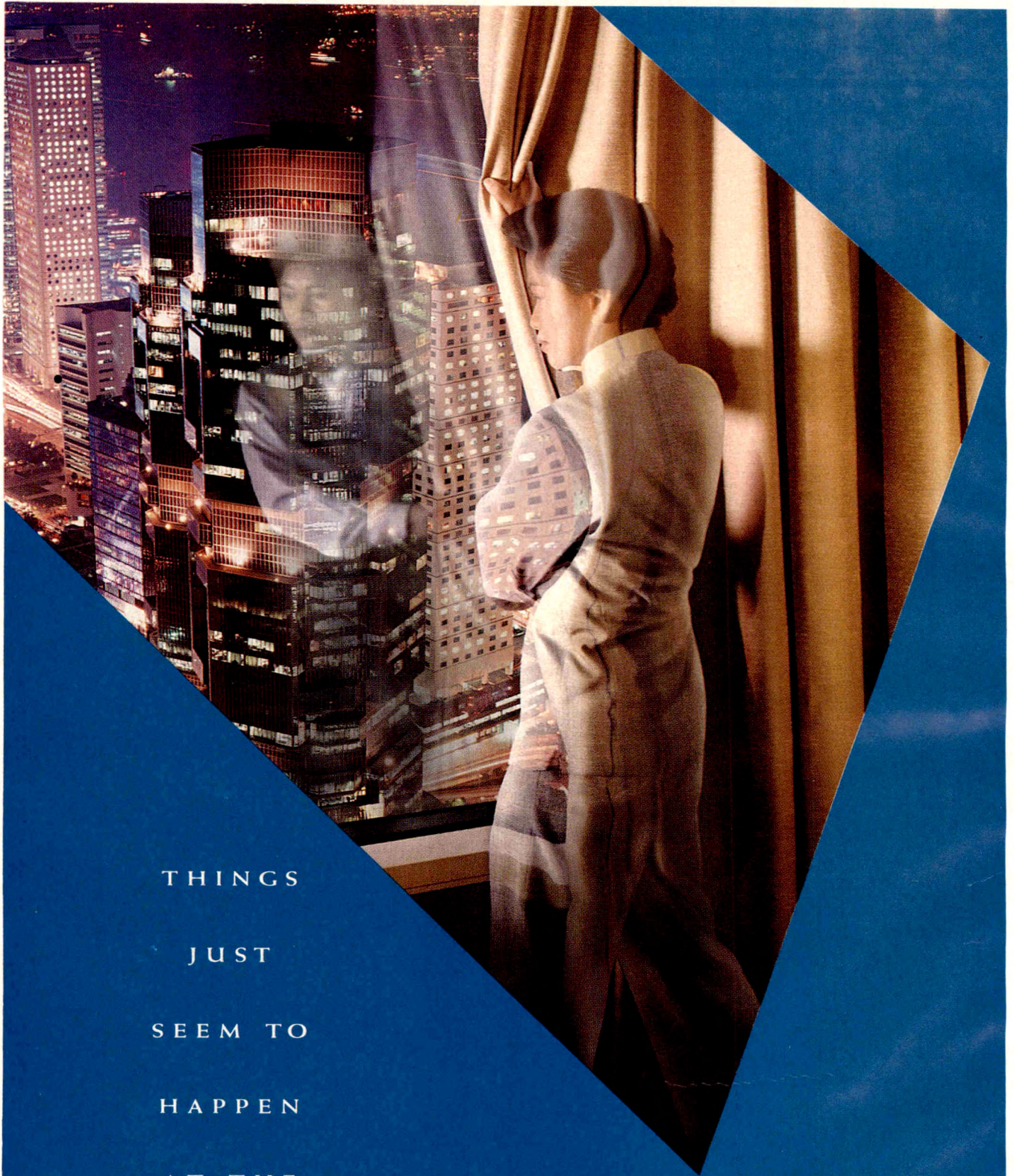
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LETTERS

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Pressing Their Case

I disagree with Malaysian Prime Minister Mahathir Mohamad's comment that "nobody elects the press" in your April 7 interview [**Nobody Elects the Press**]. To the contrary, I regularly and consistently cast my vote for the press each time I purchase a publication of my free choice, whether or not it presents opinion I personally agree with. I enjoy the wide diversity of expressed thought that is available and respect the keener perspective this allows. Obviously this is a right that neither the Malaysian prime minister nor his people have yet to appreciate.

NORMAN PAJASALMI
Bangkok

I must congratulate you on your balanced reporting in **Trading Insults** [Mar. 10], on the recent problems between Malaysia and Britain. Your report stands in refreshing contrast to those of the British newspapers, which used broad generalisations levied at Malaysia as a country where "bribery, corruption and blackmail are normal business practice." Doubtless the difference must derive from the fact that the REVIEW is closer to the epicentre of such problems.

The REVIEW account is even fair in comparison with those put forward by supposedly neutral academics. Among others, the most out-of-touch comments on the issue have come from leading academics in Malaysia and Britain. Professors Jomo Sundram and Michael Leifer have, for example, come out in the open and criticised Mahathir as hoping that the trade ban on British companies will lead to other companies picking up his contracts. Such views clearly harbour presumptions that are not backed by any evidence. The entanglement will take time to resolve and trading insults will only slow the process. My Malaysian wife and I thank you for a clear presence of mind amid a debacle.

JONATHAN BAYLIS
London

First, let me ask you this: How much did Mahathir pay you for the favourable press coverage? Second, let me point out that your assertions about Western pressure on labour rights don't really add up to much, regardless of Mahathir's complaints. You seem to take everything this man says at face value. You put him on a pedestal, let

him pontificate on any matter at hand. Then you underscore his ideas with a fawning editorial [**Protectionism in Disguise**], accusing the United States of trying to turn Gatt into a labour-rights forum.

I suggest a closer reading of your April 14 story **Social Engineers**, which on the cover carries the sub-headline "Worker Safety: Exporting U.S. Rules." I'm sure language like this tends to whip up a degree of anti-U.S., anti-imperialist sentiment



Mahathir: man of the hour.

among your readers and probably sells a few more copies. But the pressure for labour rights is not being imposed by any Western government. As your article suggests, it is coming from private companies weighing their own risks. Nike, Wal-Mart, Levi Strauss and others must decide where to manufacture in Asia, and they have a number of choices.

This is free trade in action. Why is it so "protectionistic" for a decision-maker of these companies to decide not to manufacture in a plant where 12-year-old workers are locked inside the factory? For a Western company, the risks are huge, and not just the possible legal liability should it burn down. There is also a considerable public-relations risk. There are also moral risks. No manager wants to get a phone call to learn that 30 illiterate, underpaid workers have just burned while manufacturing his shoes. These are entirely private decisions. What could be more illustrative of free trade than an American company deciding to manufacture in Taiwan rather than in China to shield itself from the legal, public relations and moral risks of China's dangerous labour market?

CHRIS BROWN
Seattle

Your April 7 interview with Mahathir and your concomitant editorial clearly reflect the prime minister's views *vis-à-vis* the woes of the Third World. Coinciding with the gradual democratisation of certain Third World and Asia-Pacific economies, the West has simultaneously embarked on a carefully-thought-out strategy to debunk such progress. On the economic front, this involves striking out at Asia's low-cost labour and environmental policies; on the political front, human rights and democracy.

What the newly industrialising coun-

tries of East Asia need is a new sense of urgency to counter these moves. Malaysia, under the Mahathir administration, should help strengthen the G15 group of developing nations. Not only would this promote trans-regional and economic cooperation, it would represent a means of gaining a negotiating platform with the G7 group of industrialised nations.

K. SABESAN
Madurai, Tamil Nadu
India

In your April 7 interview, Prime Minister Mahathir declines to fear China's growing military power, on the grounds that "China has not gone on military adventures outside of what the Chinese consider to be their own country." Perhaps he might go further and explain to those of us less untroubled about the mechanisms by which China has grown from a few states along the Yellow River to an entity that encompasses half of Asia. Expansive beneficence, perhaps?

P. J. ANDERSON
Hong Kong

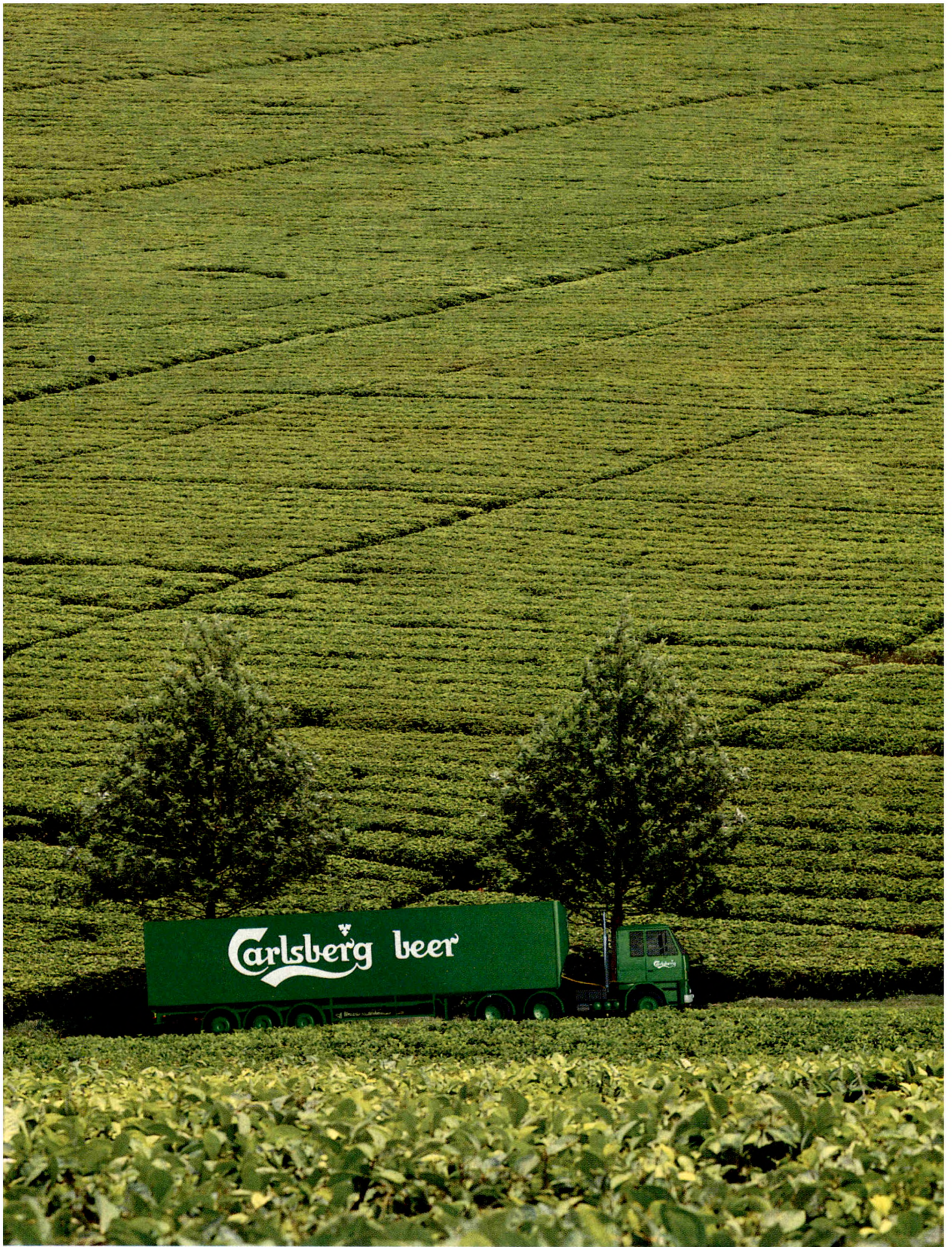
Cheeky

I felt compelled to write you after reading Susumu Awanohara's April 28 article **Whipping-Boy** on the caning of Michael Fay. To begin with, that headline implies that most Americans are opposed to Fay's caning. This is simply not true. Only a few agree with President Clinton and columnists William Safire and Jim Hoagland (not to mention the U.S. district court judge in Chicago who opposed an effort to confiscate assault weapons from criminals in a housing project).

In any event, since the Fay incident became public I have personally asked over 200 people on three continents (North America, Europe and Asia), from presidents of multinational corporations and farmers and nurses to hotel employees and waiters and teachers. It cuts across all lines, whether political — liberals, conservatives, Republicans, Democrats — or geographical — more than 20 states and many nations. Not one has told me he is against the punishment for Fay.

Far be it from Americans to tell anyone, particularly the Singaporeans, how to control crime at a time when the initials after our own capital, Washington, D.C., are often said to stand for "Death City." It is further appalling that our president has the penchant, inclination, and frankly the time to give this matter.

J. M. HESSER
Prairie Village, Kansas



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Information revolution expands Asia's horizons

Kim Il Sung has probably not heard of the internet. The net, however, knows all about Mr. Kim. And therein lies the story.

We happened to stumble across one of the Great Leader's speeches recently while cruising the internet — the world-wide information highway that links computer networks from Shanghai to San Francisco. What makes this interesting is obviously not the Kim speeches themselves, whose substance was what one might expect. What makes this interesting is the medium. For Mr. Kim's words had been recorded from a radio teletype transmission (a relic of the Cold War), stored on a computer and then posted on the net. There it might be read by upwards of 20 million people around the world for pennies. In this case, Marshall McLuhan is right: the medium really is the message.

In the past the ability to reach millions of people was assumed to be the exclusive province of governments and news conglomerates that had the tremendous wherewithal required. But when a radio ham operating out of his home can deliver information to a world audience of millions, the power of information has been transferred in ways we can only begin to imagine. Indeed, developments such as the internet suggest that many of the debates that now rage across Asia — Rupert Murdoch's difficulties with China over StarTV, the BBC's tiff with Malaysia — may largely be beside the point. The real question today is not whether governments should control information, but whether they will find it possible.

We have no less an authority than Mr. Murdoch himself. In a speech last year in London shortly after his News Corp. acquired a controlling interest in StarTV, the media chief spelled out the future as clearly as anyone. "Advances in the technology of telecommunications have proved an unambiguous threat to totalitarian regimes everywhere," Mr. Murdoch said. "Fax machines enable dissidents to bypass state-controlled print media; direct dial telephony makes it difficult for a state to control interpersonal voice communications. Satellite broadcasting makes it possible for information-hungry residents of many closed societies to by-pass state-controlled television."

Already we have had a taste of this potential. Perhaps the most dramatic came in June 1989, when TV cameras and fax machines spread the truth about Tiananmen Square throughout the world and across much of China. Yet often the most potent information lies outside the realm of politics altogether. The famous Nixon-Khrushchev "kitchen debate" of 1959 took place at a fair in Moscow over a sample American kitchen stocked with average American appliances that were undreamt of luxuries to Soviet workers. In today's world, it is nearly impossible for governments to keep their people in such ignorance because television has

brought visions of other worlds even to the meanest mud hut in the most backward village.

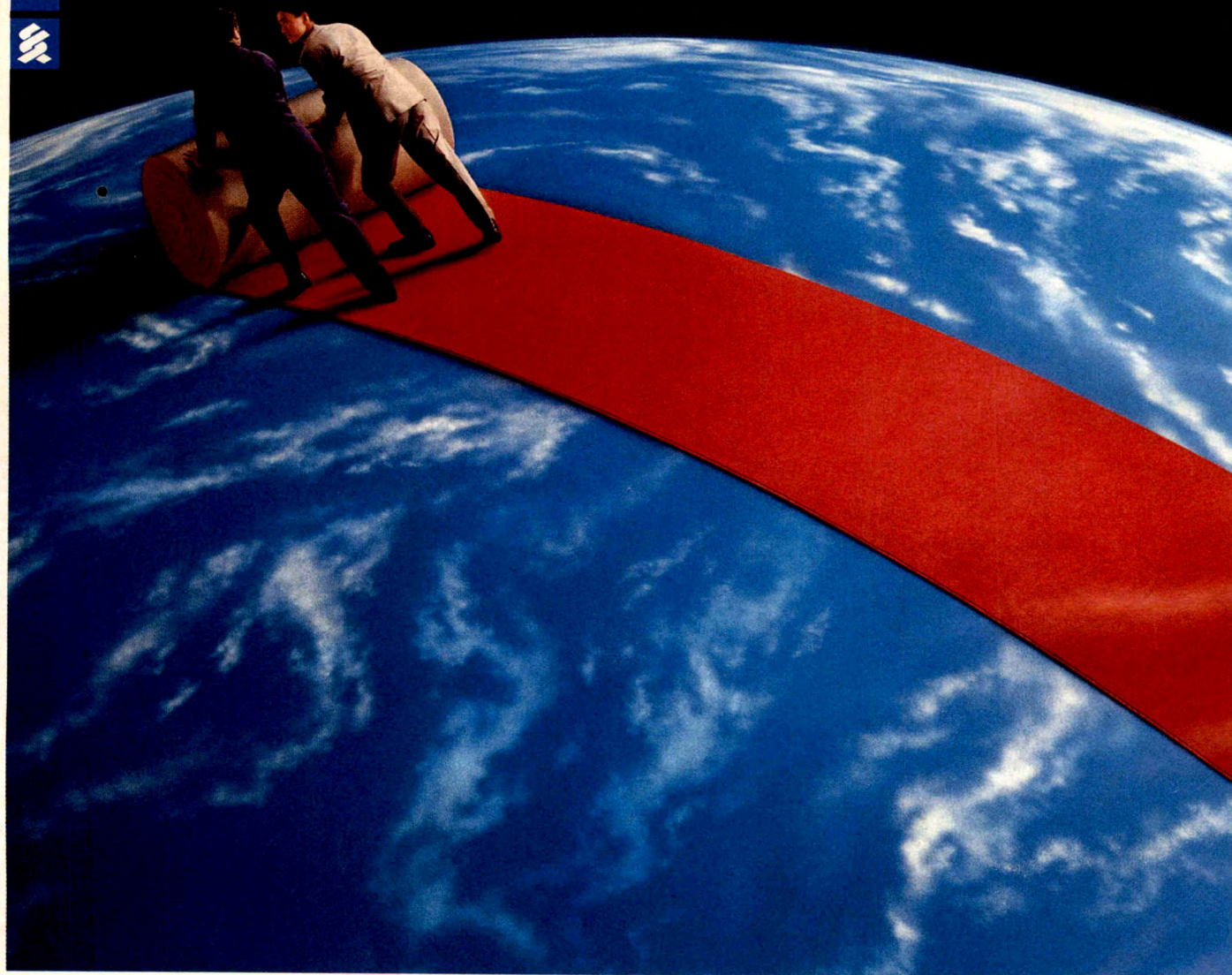
In short, far from acting to enslave — the vision enshrined in popular works from George Orwell's *1984* to Aldous Huxley's *Brave New World* — advances in technology have on the whole proved a liberating force for individuals. The integration offered by digital breakthroughs hold out even greater promise. With fax machines, televisions, phones, radios, computers, video recorders now able to talk to one another, information can no longer be held hostage to a particular medium. It is now possible, for example, to scan news footage into digital form and transmit the video or voice images over ordinary phone lines.

To put it another way, the price of control is rising dramatically. Shortly after Mr. Murdoch warned about the "unambiguous threat" to totalitarian regimes, China banned the sale of satellite dishes and Mr. Murdoch himself, out of deference to Beijing, dropped the BBC from StarTV. But no one really expects the Chinese ban on dishes to have any lasting effect, and the loss of the BBC will certainly not stop the information coming in. Already on the internet alone, millions of ordinary citizens exchange information and views about everything from caning in Singapore and the death of Richard Nixon to Japan's trade deficit and North Korea's pursuit of the bomb. The often high-spirited discussions on the net are not always models of calm discourse. But the important point is that participants need no longer rely on central intermediaries for their information.

Certainly there will be bumps along the information highway. Hi-tech pornography, available in most every format, is already a worry, as is the security of personal information and messages stored or transmitted electronically. But the telecommunications revolution did not invent poor taste or eavesdropping, and it's worth remembering that societies have not yet found perfect solutions for more traditional versions, either.

Governments have historically been the most apprehensive about free-flowing information. But we suspect that within the region most will soon find themselves integrated into the information highway, not least because of a new generation from Beijing to Bangalore who have found themselves empowered by these developments and enchanted by the possibilities. Governments likely will try to control this future as long as they can, but the wondrous point about the new technology is that it allows for few compromises: ultimately the choice is between opening up or pulling the plug completely and opting for a stone-age society. And outside of a few ageing tyrants in Pyongyang, we can't think of anyone who thinks that's a real choice. ■

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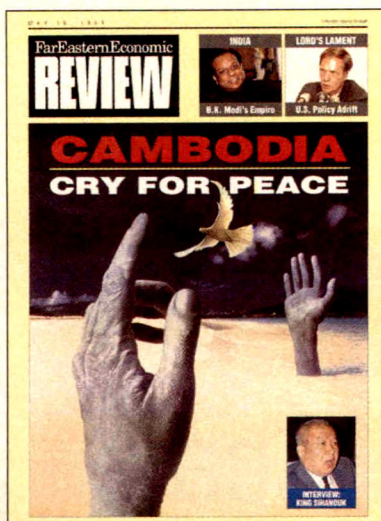
A smuggled note sparks a controversy over prison labour in Taiwan. Page 26.



Analysts examine the outlook for Thailand's stockmarket. Page 52.

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COVER STORY

A year ago, the UN's biggest operation to date produced stunningly successful elections in Cambodia. But the UN left without fulfilling some key areas of its mandate, including disarming rival factions. Those failures have come back to haunt the country, which is plunged anew into civil war. In an interview with Nayan Chanda, King Norodom Sihanouk discusses his country's bleak prospects. But as Nate Thayer reports, some businesses have found grains of gold amid the wreckage. Page 16.

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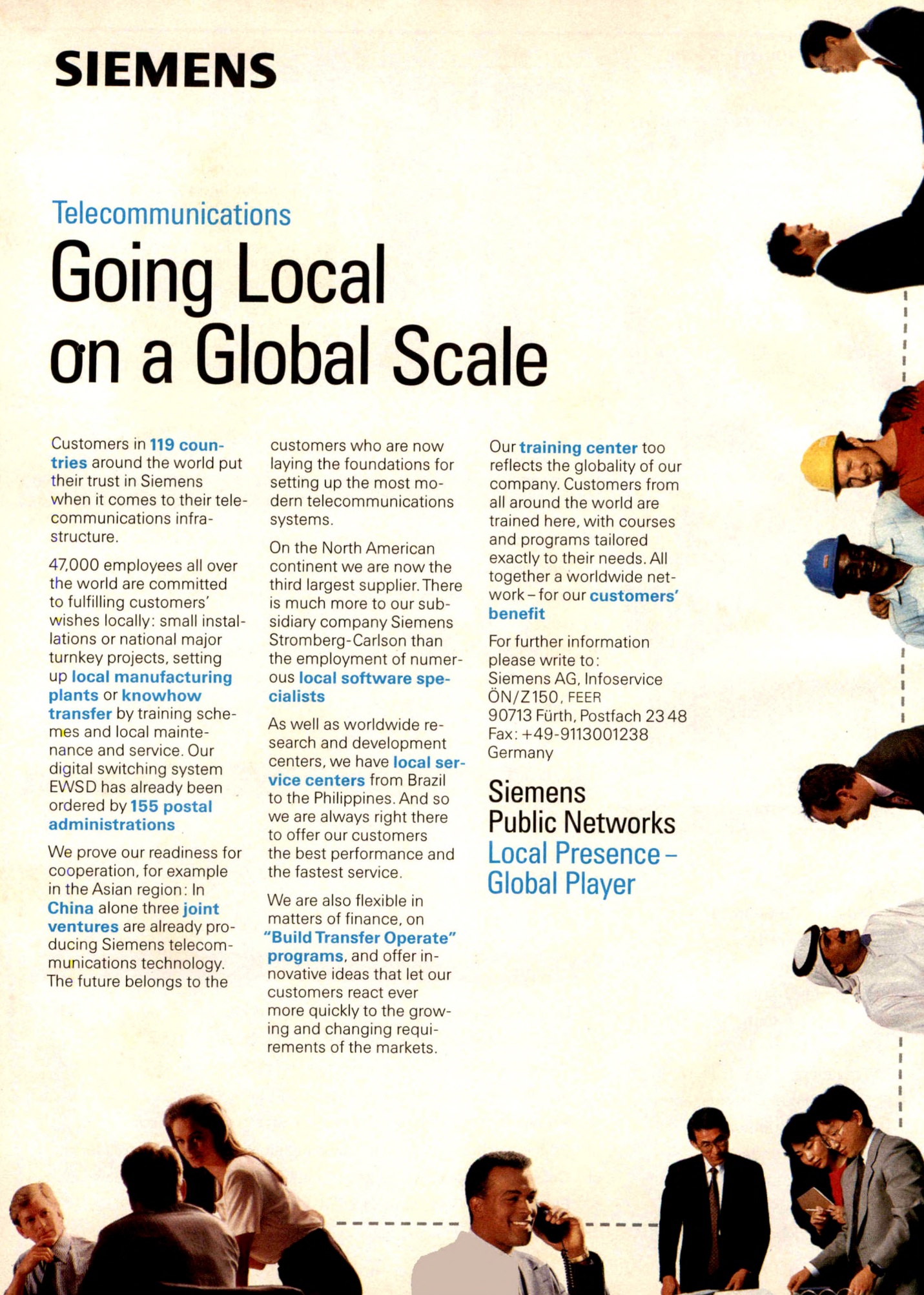
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Manila that *included*
breakfast with the bankers

and dinner with the
developers, isn't

it wonderful to

come home to the

warmth of Mandarin Oriental.



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In Other Words

"If they think their programme is so important, they can keep it."

Malaysian Information Minister Mohammed Rahmat, just before the BBC stopped supplying news programmes to Malaysia because of censorship of its shows.

"This is Queen Mary Hospital. Your wife is dead already."

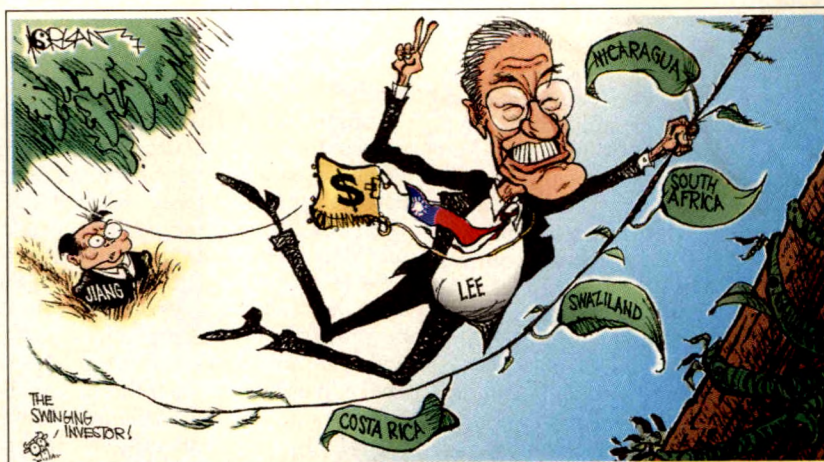
A message left by a nurse on a Hong Kong answering machine, notifying the husband of a patient that his wife had passed away.

"I thought if I killed him we could live together."

A 14-year-old Japanese boy, explaining why he stabbed his girlfriend's father to death after the father demanded the pair break up.

"Do you want to have another enemy?"

Singapore's senior minister, Lee Kuan Yew, warning Washington not to pressure China over human rights.



NEWS ITEM: TAIPEI SCORES A DIPLOMATIC COUP AS PRESIDENT LEE TENG-HUI MAKES HIS FIRST OFFICIAL VISIT ABROAD.

"Politics should be left to politicians."

Chung Ju Yung, founder of South Korea's Hyundai Group and former presidential candidate, saying he will formally retire from Hyundai in an effort to end the conglomerate's feud with the government.

"It doesn't mean it's a bad country. It's just a bad experience."

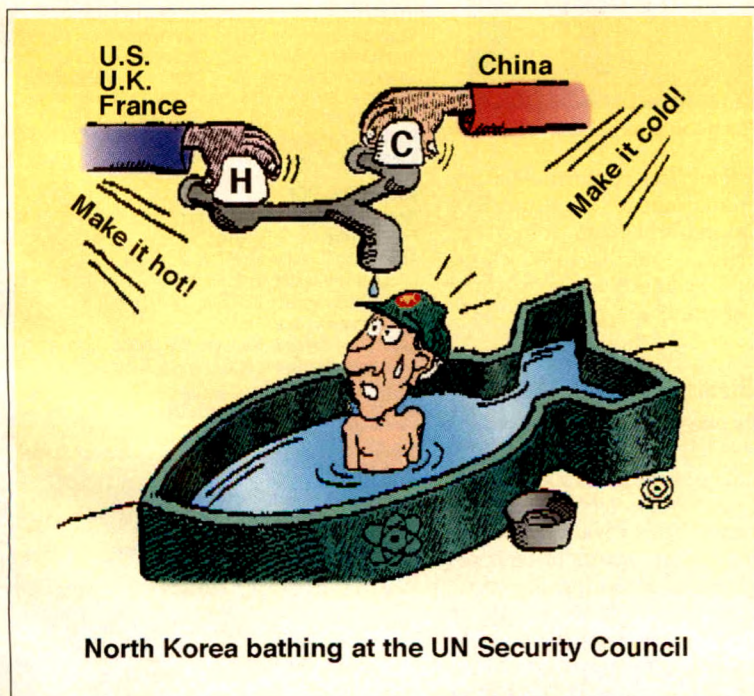
Russian beauty queen Inna Sovoba, after immigration officials in Bangkok detained her during a stopover at the airport while en route to the Miss Universe contest in Manila. Thai authorities are wary of Russian women, many of whom work as prostitutes in the country.

"I've been told we Filipinos kidnap and kill each other, but we are very kind to tourists."

The general manager of the Philippines Tourism Authority, Eduardo T. Joaquin, insisting that violence in the country has not affected tourism.

"Very corrupt and very liberal. We are among the most corrupt states in the world. Never mind. We are a democracy with a free press and a free market economy."

King Norodom Sihanouk of Cambodia during an impromptu press conference with Western journalists in Phnom Penh.



North Korea bathing at the UN Security Council

NEWS ITEM: BEIJING CONTINUES TO THWART ATTEMPTS TO TURN UP THE HEAT AGAINST PYONGYANG.
Yu Ki Song/The Segye Times (South Korea)

Please share quotes you see: REVIEW, GPO Box 160, Hong Kong, or fax (852) 503-1530.

INTELLIGENCE

Still Kicking

Long considered a spent force in the Philippines, it now appears the military rebel organisation formerly known as the Reform the Armed Forces Movement (RAM) is alive and quietly continuing to recruit supporters in the military. Known since 1987 as the Rebolusyonaryong Alyansang Makabansa (Revolutionary Nationalist Alliance), its leaders now claim the RAM has evolved from a purely military group to a full-scale, popular political movement. Two of the RAM's top leaders, former Col. Gregorio "Gringo" Honasan and former Capt. Danny Lim, told the REVIEW that they have cells within several student governments and trade unions. Within the military, they claim, recruitment among "still idealistic" younger officers has not been difficult at all because of dissatisfaction with the current crop of generals. Military sources claim that the government's principal worry is the RAM's failure to surrender its cache of high-powered firearms, notably 15 light anti-tank weapons.

Journalists Beware

Wary about Western subversion of its socialist system, Hanoi has cancelled a long-planned international journalists' seminar. Organised by Germany's Adenauer Foundation in cooperation with the Institute for International Communication and Cooperation, the seminar was scheduled to be held in Ho Chi Minh City in June. The participants were to include 50 Vietnamese journalists and several from European and Asian countries. In March, Hanoi cancelled a seminar for Vietnamese journalists sponsored by the U.S.-based Freedom Forum at the last moment.

No Sale

Sources involved in enterprise reform say the Chinese Government has ordered a halt to the sale of state industries until after the fifth anniversary of the June 4 massacre in Beijing. State industries throughout China which have been making losses are gradually being sold, with large layoffs often a feature of their subsequent restructuring. This, in turn, adds to an already serious unemployment problem as well as to worker unrest. Democracy activists are increasingly linking workers rights with other issues such as human rights, causing concern in government circles that the next protest movement might be worker-led. "Worker unrest is the thing the Chinese Government fears the most," notes a Western diplomat in Beijing. The

period up to and including June 4 is usually marked by heightened security in the Chinese capital.

Squeeze Play

Burmese and Thai security authorities appear to be cooperating against ethnic rebels based along their common border. Sources say the first step will be for Rangoon to reach an accommodation with ethnic Mon rebels near the Three Pagodas Pass. When that has been accomplished, the Karen rebels further to the north will be pressured into accepting a cease-fire with the Burmese Government. Next, the Thai authorities will clear the Karenni border area opposite the Thai border town of Mae Hong Son for the Burmese army. This last step will be in preparation for a major military assault on Khun Sa's Mong Tai Army, which is based in Burma's Shan State northwest of Mae Hong Son. It has



They're on Rangoon's target list.

proven too difficult for the Burmese army to launch a frontal assault on Khun Sa's Homong headquarters from across the Salween River to the north. An attack on Khun Sa would be much easier to carry out from the Karenni area.

Culture Vultures

Relations between Seoul and Paris are in for a rough patch as France has decided to reconsider the return of the 300-volume collection of ancient Korean books its navy plundered from Korea's royal archives in 1866. Reversing earlier reports of their repatriation, as suggested during President Francois Mitterrand's visit to Seoul last September, the French Foreign Ministry now says the priceless royal editions could "travel" to Seoul only under an "exchange exhibition," with Seoul offering cultural material of "equal value" for exhibition in France. This also rules out the permanent return of the looted ancient volumes.

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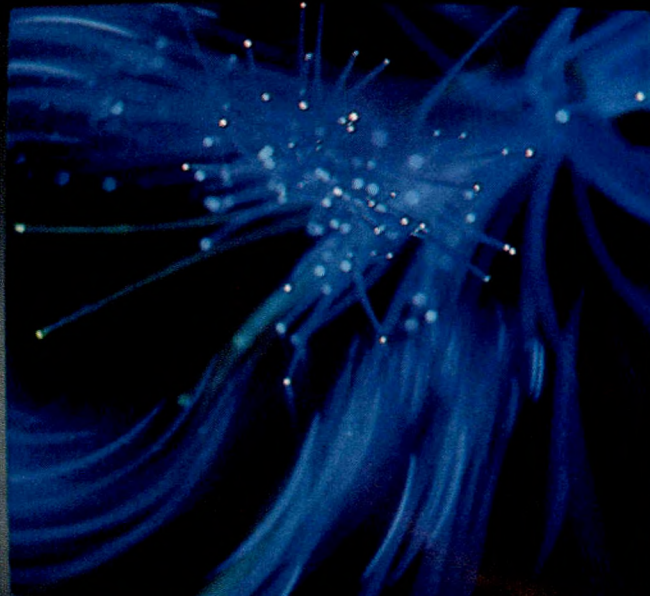
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REGIONAL BRIEFING

CHINA

Party Precaution

China will eliminate its highest military rank in a bid to assert party control over the army. A Central Military Commission (CMC) proposal to be passed by China's parliament would abolish the post of first-grade general, which has been vacant since its creation in 1988. The move would leave highest authority over the army to CMC Chairman Jiang Zemin, who is also party chief and president.

'Social Order' Laws

Beijing has enacted new laws to allow it to crack down on any dissent deemed to threaten "social order." The 18 new rules ban unapproved activities by unregistered social or religious groups, persons under official surveillance or those stripped of political rights.

Dissidents Detained

Police detained artist Ling Muchen, a member of the Shanghai-based Association for Human Rights. Three of his colleagues, Dai Xuezhong, Li Guotao and Wang Fuchen, have also been picked up, according to leading dissident Yang Zhou. Wang's detention along with fellow activist Bao Ge during the Shanghai visit of French Prime Minister Edouard Balladur in April sparked a diplomatic furore.

INDIA

Cash for Kashmir

New Delhi will pump up to Rs 2 billion (US\$64.5 million) a year into Kashmir in hopes of weaning the Muslim-majority state away from secessionist rebellion, officials said on May 8. The money would go into rural development, job-creation schemes and health care.

Dalai Lama Move?

The Dalai Lama said on May 7

that he might move his headquarters from the resort town of Dharamsala in northern Himachal Pradesh state to the southern city of Bangalore because of an anti-Tibetan campaign in Dharamsala by local politicians. An influx of Tibetan youths into the hill town has caused tensions with local people.

MALAYSIA

Fighter Deal

Malaysia says it is close to signing a deal with Russia for the purchase of 18 MiG29 jet fighter aircraft. The announcement followed a visit to Kuala Lumpur on May 6 by Russia's deputy foreign minister, Alexander Penov. Negotiations are still focused on the proportion of hard currency Malaysia would pay for the fighters. Kuala Lumpur

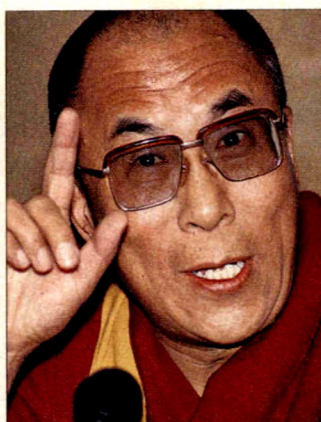


Palm oil for planes.

favours a 50% barter component — in palm oil. Moscow is holding out for a 60% cash payment.

Clinton Meets Mahathir

U.S. President Bill Clinton met Malaysian Prime Minister Mahathir Mohamad on May 6 at the White House. The two leaders discussed "bilateral and regional issues," including the Asia-Pacific Economic Cooperation (Apec) forum over which Washington and Kuala Lumpur have had disagreements. Mahathir refused to attend the first Apec summit in Seattle last November. But Clinton was assured he would see



The Dalai Lama may move base.

Mahathir at a planned Apec leaders' meeting in Jakarta.

THAILAND

MP's Assets Seized

The U.S. Government has seized some U.S.-based assets of Thanong Siripreechapong, a member of Thailand's parliament from the Chart Thai party. American officials have accused Thanong of smuggling more than US\$10 million worth of marijuana into the U.S. between 1977 and 1987, and of using profits from smuggling narcotics to purchase property in California. Thanong has denied the smuggling charges.

SINGAPORE

Two Votes for Some

Senior Minister Lee Kuan Yew has again raised the prospect of changing the voting system in the island republic, according to report in *The Sunday Times* of Singapore on May 8. The paper quoted Lee as saying: "We should consider giving those between the ages of 35 and 60, married and with families, one extra vote." The privilege would reflect their greater contributions and responsibilities to society. Lee said Singapore may need to consider such a change "maybe in 15 to 20 years."

VIETNAM

Talks on U.S. Claims

Vietnam and the U.S. have agreed in principle on claims to diplomatic premises dating back to the Vietnam War and are preparing for a second round of talks on the issue, Vietnam's Foreign Ministry said on May 5. The talks will be held in the U.S. on dates still to be fixed.

NEPAL

Anti-India Protest

The opposition United People's Front, the third-largest party in Nepal, called on May 9 for a boycott of Indian films and a blockade against Indian vehicles entering the country to protest against New Delhi's alleged meddling in Nepalese affairs. The leftist front demanded a public Indian apology for a March incident when Indian police raided homes in Kathmandu in search of a criminal suspect. New Delhi has apologised to the Nepalese Government over the issue.

Indicators

Secondary-school enrolment for females in selected Asian countries

	%	'75	'85	'91
China	38	32	41	
Hong Kong	47	75	75	
India	18	26	33	
Indonesia	15	—	41	
Malaysia	39	53	58	
Pakistan	7	10	13	
Philippines	—	66	75	
Thailand	22	28	32	
Vietnam	41	40	40	

Source: Asian Development Bank



NATE THAYER

Victims of a never-ending struggle: refugees displaced by a new round of Khmer Rouge attacks in western Cambodia.

C A M B O D I A

Things Fall Apart . . .

One year after the dawn of democracy in Cambodia, the country is sliding towards anarchy as the Khmer Rouge go on the warpath against a demoralised government army.

By Nate Thayer in Battambang and
Nayan Chanda in Phnom Penh



Remember the Cambodian peace accords? The glittering ceremonies in Paris' Avenue Kleber conference hall? The United Nations peacekeepers in Cambodia?

They are all a distant dream now as hundreds are killed and tens of thousands flee their burning villages. As if to remind the international community that Cambodia is back to warfare as usual, the Khmer Rouge has taken to beheading its victims, and a beleaguered government army seeks to shore up its morale by displaying the severed head of a captured Khmer Rouge soldier.

It was only a year ago that 22,000 UN peacekeepers and thousands of international observers fanned out across Cambo-

dia to run the country's first free and fair elections. The vast majority of Cambodians braved all sorts of obstacles to cast their votes. But within days of that amazing show of determination by a once-cowed population, the first cracks appeared in the plan for a democratic government. Now, with the government reeling from a military debacle at Pailin and Khmer Rouge insurgents launching attacks across the country, Cambodia seems to have gone back to square one.

One year after the US\$2 billion UN-sponsored elections, Cambodia is back in the grip of civil war. A four-month dry-season military offensive by the govern-

ment ended in disastrous embarrassment, and the Khmer Rouge now controls more territory than it did prior to the government push. The sight of wealthy Cambodians and foreigners fleeing the country's second-largest city, Battambang, for the safety of Phnom Penh in early May evoked for some the spectre of a Khmer Rouge return to power. In a display of black humour, King Norodom Sihanouk told a visiting French official that "the next time President [François] Mitterrand invites me, I may have to seek political asylum."

Seasoned military observers and political analysts discount the prospect of the Khmer Rouge returning to power by military means, but they also see no prospect of Phnom Penh decisively defeating the Maoist guerillas. The government produced by last year's election is beset by massive corruption, thuggery and infighting among the coalition partners, leaving it unpopular and precariously weak. The continuing instability deters crucial international development aid, undermines long-term private investment, threatens essential revenue from tourism and discour-

On Other Pages

19 **The Centre Cannot Hold**

20 **Golden Opportunities**

ages efforts to reconstruct the country's infrastructure. Without a firm economic foundation, the prospects of building political stability are dim indeed.

The latest unravelling of government power ironically began with a much-ballyhooed victory over the Khmer Rouge in February at Anlong Veng, the faction's northern headquarters. However, the Khmer Rouge recaptured the base within days. A month later, government troops seized the Khmer Rouge capital of Pailin, a gem-mining town near the Thai border. But the army's biggest victory turned into its biggest rout on April 19, when the Khmer Rouge counter-attacked and government troops fled in disarray across their own minefields.

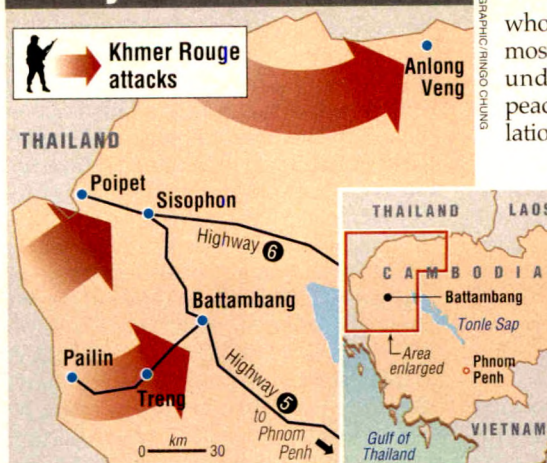
When Khmer Rouge forces set out to recapture Pailin, they never expected their offensive would carry right through to the outskirts of Cambodia's second-largest city. But after rolling through Pailin, Khmer Rouge tanks proceeded to capture the government's rear base and then moved north up the provincial highway to Battambang. Only when the guerillas' main force reached the city's outskirts did the government organise a serious defence.

The attack was the closest the Khmer Rouge has come to overrunning a key city since it was driven from power in Cambodia in 1979 by invading Vietnamese troops. "For 15 years we couldn't do this," says a surprised senior Khmer Rouge official, "but now their internal problems are causing them to lose." Angry government soldiers and villagers agree. "Our officers only steal and get drunk. They don't think of us, only themselves. We just ran for our lives," one soldier said.

The fighting has driven more than 60,000 refugees from their villages since late April. Hundreds of international aid workers have pulled back to Phnom Penh, suspending their operations in western provinces. Schools in much of the region have closed. It is unsafe to farm rice in many areas, and merchants complain that government soldiers are looting and robbing, angry at their army's failures and the fact that they have been without pay for months.

Alarmed Cambodian leaders say parts of Cambodia are facing a collapse of government authority, this time with no one to come to the rescue. "We really are struggling alone," First Prime Minister Prince Norodom Ranariddh said in an interview. "Not one foreign country agrees to help us, not even to sell us munitions. We ordered Chinese ammunition through a Singapore company, but the Chinese Government blocked the delivery. I am not accusing China, but the Khmer

Dry Season Debacle



Rouge are using Chinese tanks — the tanks that [former UN chief in Cambodia Yasushi] Akashi, with all his helicopters and photographs, did not manage to discover," he said. "I want to know, where do these tanks come from?" asked Ranariddh, implying that the Khmer Rouge was still receiving outside aid.

The prince admitted that in his desperate search for the means to fight the Khmer Rouge, he had even turned to former enemy Vietnam, which occupied Cambodia from 1979-89 while Ranariddh led a resistance faction. "Three months ago we tried to buy ammunition from Vietnam. I sent their old friends to approach the Vietnamese. But President Le Duc Anh wrote an official letter to us saying, 'we are sorry, but we cannot sell you even a single bullet'." The former head of Vietnam's client regime in Phnom Penh, Hun Sen, is now Ranariddh's junior partner in Cambodia's coalition government. International pressure forced Vietnam to pull out of Cambodia, where its army had kept the Khmer Rouge in check.

To explain their military debacle, government leaders point fingers at the UN,

whose Cambodian operation was the most ambitious and costly it had ever undertaken. Though the relatively peaceful election was a huge public-relations success for the world body, the

UN Transitional Authority in Cambodia (Untac) failed to deliver on a key plank of its mandate — demobilising 70% of the armed forces of all factions. Untac also failed to take real control of several key areas of administration, as called for by the Paris peace agreement. The election winners were left to deal with the consequences, which go beyond a continued Khmer Rouge insurgency.

While Ranariddh's royalist Funcinpec party edged ahead of Hun Sen's Cambodian People's Party (CPP) in the voting, it had to accept a coalition government with the CPP, which still controls the army, police and much of the administrative apparatus. "We have inherited from Untac a demobilisation of spirit," Ranariddh said.

But some analysts say that Cambodian leaders are too eager to assign blame elsewhere. The analysts note that there is no history of power-sharing in the Cambodian political culture, which may explain why the members of the coalition government spend more effort on consolidating their own power and undermining their ostensible partners than on building a unified political foundation for the state.

In fact, the real struggle for power began once the UN-run elections were over. It is not so much a tussle about policy as it is a shameless scramble for the perks and privileges government jobs can bring. Since each party wants to match the other in rank, the number of senior officers and civil servants has swelled. With 2,000 generals and 10,000 colonels, Cambodia's army is probably the most top-heavy in the world.

The high inflation is further amplified by the rampant corruption of generals who pocket salaries for phantom soldiers. Cambodia's army officially numbers 140,000, but one Western ambassador estimates that close to half are "ghost soldiers."

Government troops and police interviewed at the front near Battambang speak with disgust about the conduct of their officers. They say that while they had no medicine, food, or pay, their superiors were using military trucks to haul away war booty — motorcycles, furniture and even window frames — from Khmer Rouge houses in Pailin. Some soldiers speak of the wounded being made to walk through jungles for days while military trucks took the loot back to the safety of Battambang.



Severed head of Khmer Rouge guerilla in Battambang.

Cronyism and corruption do not plague the military alone. The parties also jostle to reward their supporters with jobs in ministries and departments — the most coveted of which are the customs and police. "The salary of US\$30 a month for a minister and US\$10 for a policeman is not really something that the parties are fighting for," says one Khmer-speaking foreign expert. "They want a government position or a uniform to be able to shake down people."

Second Prime Minister Hun Sen acknowledges the low wages paid civil servants and soldiers make them prone to corruption, but he says he is more concerned about the high salaries of National Assembly members. The 120 deputies voted themselves Riel 3.7 million (US\$1,500) in salary and expenses a month — 100 times more than a typical soldier draws. "Had it not been for my opposition, they would have given themselves a salary and expenses of 5.6 million a month," Hun Sen says.

Even with their salaries, which are astronomical in a country with a per capita annual GNP of US\$130, the assembly members have not been able to do much legislating. A dispute over parliamentary regulations that would allow the return of two CPP deputies who resigned last year has virtually shut down the assembly. More than half a dozen bills, including a foreign investment code and immigration laws, are yet to be presented. Urged by West-

ern financial institutions and foreign missions, Ranariddh is pushing for the assembly to reconvene on May 16 with passage of the investment code as the first order of business. "Over time," says a Western ambassador, "the problem is development of the economy and not the Khmer Rouge."

Tensions within Funcinpec, the party of First Prime Minister Ranariddh, are adding to the political paralysis. Foreign Minister Prince Norodom Sirivudh, King Sihanouk's half-brother, has drifted apart from Ranariddh, the king's son. Their differences are believed to focus on Ranariddh's close ties with CPP leader Hun Sen, and what Sirivudh considers Ranariddh's anti-reformist, authoritarian tendencies. The prime minister is also at loggerheads with his economy and finance minister, Sam Rainsy. In March, Ranariddh and Hun Sen flew to Beijing to get the king's approval to sack Rainsy. Soon after, Rainsy and Sirivudh arrived to present their own case to the king. Sihanouk ruled in favour of keeping Rainsy.

But the party squabbling didn't end there. Earlier this month, Sirivudh was re-

moved from his post as Funcinpec general secretary. The problems deepened when the king stepped in with a sharp criticism of his son and his party. An embarrassed Ranariddh later tried to play down the remarks, explaining to diplomats that the king is 72 years old and tired from his cancer treatment.

King Sihanouk's desperate efforts to save the deteriorating political and military situation in Cambodia have not endeared him to his "children," as he likes to refer to the country's political leaders. While some accuse the king of being power-hungry, others say that however well-meaning he may be, his flip-flops have seriously compromised the government's ability to deal with the Khmer Rouge. A senior CPP member, who spoke on condition of anonymity, said that it was on Sihanouk's recommen-



Cambodia's army suffers from having too many generals and colonels.

dation that the government drafted a law in April that would have outlawed the Khmer Rouge. Then three days later, the king issued a call for round-table peace talks with the radical faction. Those talks never materialised, as the Khmer Rouge pressed its battlefield advantage after recapturing Pailin. "I am afraid that after hearing the call for talks, the soldiers may just decide to go back home," said the CPP member, shaking his head in despair.

Sources say Ranariddh is also perturbed by his father's hot-and-cold approach to dealing with the Khmer Rouge. While zigzags have long been a hallmark of Sihanouk's diplomacy, sources among all the coalition partners warn that such tactics can seriously undermine military operations.

The Khmer Rouge military success in Battambang says less about the strength of the guerillas than about the weakness of the government army. Intelligence sources say the attack was mounted by a force of less than 500 guerillas. Instead of making a stand, the provincial governor and scores of officers fled their command posts for Phnom Penh. On seeing their officers

panic, several thousand troops simply abandoned positions that were confronted by the guerillas.

The mood of the Khmer Rouge is confidence mixed with anger over the government's decision to fight, rather than talk, during the dry season. "They should have chosen a political solution, but they decided to seek a military solution. But now their Dien Bien Phu has already happened," one senior Khmer Rouge official told the REVIEW, alluding to the decisive French defeat in Vietnam in 1954. Most observers agree that the Khmer Rouge is using military pressure strictly to force an eventual political solution that would give the faction maximum influence in a new coalition regime.

But the Khmer Rouge, too, is facing some serious problems, Western military analysts in Phnom Penh say. Intelligence reports indicate that Khmer Rouge commanders inside the country are jealous of the money and privileges of their counterparts along the Thai border, who control a lucrative trade in timber and gemstones. Many guerillas are demoralised, but they are obliged to fight because their families are held in Khmer Rouge-controlled villages. Despite their military successes of late — and the distinct prospect of further gains — the insurgents remain a relatively small and weak force. "The Khmer Rouge at one stage hoped to launch an armoured drive towards Phnom Penh and got Chinese tanks for that, but I don't think they have the manpower and organisation to do it," says a Western expert.

While it is in a position to launch military assaults on provincial capitals in the north and west, the Khmer Rouge doesn't have the ability to hold and administer a large area, and certainly not a populous city such as Battambang. The government's ineptitude and corruption may have made it widely unpopular, but the Khmer Rouge is still widely feared for its murderous 1975-79 rule over Cambodia. Any attempt to hold a provincial capital would almost certainly result in spontaneous rebellion, panic and flight by the population.

The latest fighting is having an alarming impact on the economy of Cambodia's west and north. Many essential commodities are imported from Thailand, but the main trading route through the border town of Poipet has been severed for weeks.

"We have nowhere to go," says a vendor in a village along Highway 5 near Battambang. "We are scared of the Khmer Rouge. We are scared of the government

soldiers." A blown-up bridge in the centre of town testifies to a recent Khmer Rouge attack, while the vendor says a detachment of government soldiers sent to provide security had looted the market that morning. "They both hurt the people. Where can we go. Everybody steps on us," he says.

Life looks set to grow only bleaker for villagers and refugees in the contested areas. Khmer Rouge sources say that they need "one more rainy season" of fighting to force the government to meet their demands, while the government vows to reverse its defeats with a more concerted military push. Amid the anarchy of war, Cambodia's notorious savagery has resurfaced. The head of a captured Khmer Rouge soldier, chopped off during interrogation in early May, is on display in front of a military installation on Battambang's main road. And according to the government, the Khmer Rouge raped and beheaded 10 soldiers' wives in a border village, though independent confirmation of that report was unavailable.

The government's frustration over its humiliating defeats is heightening tension with Thailand over its perceived support for the Khmer Rouge. Prime Minister Ranariddh told the REVIEW that Thailand has refused to hand back weapons that Funcinpec received from China and stored in Thailand during the anti-Vietnamese resistance. Thai army chief, Gen. Wimol Wongwanich "told us the weapons could not be given because Thailand was neutral," Ranariddh says.

Since King Sihanouk's round-table talks never materialised, the government plans to go ahead and submit the bill declaring Khmer Rouge members outlaws, Ranariddh says. Sirivudh, the foreign minister, has embarked on a series of visits to countries that co-signed the Paris peace accords to urge them to respect their commitment to guarantee Cambodia's sovereignty and territorial integrity, which Phnom Penh alleges has been violated by Thailand.

Cambodia's latest desperate bid to secure foreign military and diplomatic support for its fight against the Khmer Rouge is unlikely to make any headway. The Khmer Rouge successfully defied the UN when it had 22,000 men in Cambodia because it correctly read the limits of international intervention, knowing it had powerful friends across the border in Thailand and even among the permanent members of the UN Security Council. Despite its democratic and free-market trappings, Cambodia's corrupt administration and oppressive army are unlikely to evoke the sympathy of the West. As for the Cambodian people, they seem fated to be left alone with their tormentors of various stripes. ■

CAMBODIA

The Centre Cannot Hold

Sihanouk fears for the future of his country



After a prolonged absence from his country while he was being treated for cancer in Beijing, King Norodom Sihanouk has returned to Phnom Penh. But battling the ills plaguing his kingdom is proving tougher than his own fight against cancer. During a wide-ranging interview with the REVIEW's Nayan Chanda, the monarch looked surprisingly alert and energetic — though he was gloomy about the nation's prospects and even its survival. Excerpts:

How do you see the Khmer Rouge strategy?

The Khmer Rouge have taken Treng, which was the logistical base of the royal army. It is a threat to [the provincial capital] Battambang. It is difficult to foresee



Sihanouk: Cambodia first, not the monarchy.

what the Khmer Rouge will do. Will they try to take Battambang? Or would they rather set up a state adjacent to Thailand stretching from the Preah Vihear temple through Oddar Meanchey to Banteay Meanchey and the northern shores of the Tonle Sap lake? That way they will have [an area rich in] timber, gemstones, rice and fish. The advantage is that they are very friendly with the Thais, especially the military. Once that is consolidated they will try to capture Battambang and Angkor Wat [temples]. Angkor is more than Preah Vihear. Angkor is a symbol of the country, its national grandeur. It will have an extraordinary psychological impact. It is like having control of 15 provinces.

What made you propose a roundtable with the Khmer Rouge?

When I saw that things were going badly in Pailin, I quickly proposed a new peace plan, I invited Khieu Samphan to come stay in the palace. But he said that the palace now has ceased to be neutral. Now I propose a cease-fire with the Khmer Rouge. But I wonder whether it is not a bit too late because the Khmer Rouge must be saying 'we must take advantage of the demoralisation of the [government] soldiers.' I know that they wanted to join our government in order to sabotage our work and to try to destroy our fortress from inside. But, faced with a fast moving war, the monarchy is crumbling. At least we will have a chance to delay a total defeat and loss of Cambodia for some years if we let them share power.

How strong is the Khmer Rouge?

A leader of the government here, I won't name him, says the Khmer Rouge numbers 3,000-4,000 maximum and the Khmer Rouge problem is a minor problem. But the presence of Khmer Rouge in the country is like a leopard's spots. They are in Kompong Cham, Kompong Speu, Kampot and even in Sihanoukville — they are everywhere. Even near Phnom Penh they have sanctuaries. I think the Khmer Rouge has at least 20,000 men.

And what is the state of the royal army?

I know that the Cambodian army is very large. There are months when they are not paid. The soldiers have nothing to eat, they suffer from malaria, they have poor supply lines. We have a military organisation that is totally unique. In other countries there is a pyramid organisation of armies. At the bottom in large numbers are soldiers, and above them in decreasing numbers are corporals, sergeants, lieutenants, captains, majors, and colonels. At the top are generals — only a few in number. Here in Cambodia we have an inverse pyramid. The other day I saw Michael Costello, Australian deputy foreign minister. He told me that Second Prime Minister Hun Sen admitted to him it was difficult to find soldiers. When he goes to inspect the army he only finds officers.

What can the West do?

Costello told me, 'If the situation is desperate, instead of letting your royal regime crumble we will consider the possibility of giving something in terms of weaponry.' But he did not promise anything. He spoke in his personal capacity and asked for my reaction. I would appreciate very much [the West's] military aid but we should set up elite units to fight the Khmer Rouge, be-

cause weapons — like bread — distributed to old units will disappear. It is better to create new units rather than select soldiers from the existing units. But that too is difficult. When one creates an elite unit it has to be with volunteers. The volunteers will ask: fight the Khmer Rouge for what? To maintain a corrupt regime? To widen the gap between the privileged and the poor?

How are relations with Vietnam?

The Vietnamese move border markers deeper into our territory, dig canals inside our territory, creating a new border line. Digging canals has been an old tactic, but now the border markers are walking, they are walking towards the west . . . they know we cannot take care of two fronts

Golden Opportunities

By Nate Thayer in Phnom Penh



When the United Nations pulled out of Cambodia last year, it left behind a satellite communications system to serve as the backbone of the country's first nationwide telephone network. But thieves stripped the exchange of its valuable components within days of the multinational force's departure, rendering the system inoperable. Far from being deterred by that triumph of rapaciousness over national interest, some foreign businessmen saw it as a golden opportunity. A dozen companies rushed in to bridge the communications gap, and several thousand mobile telephones were hooked up within months.

Similar scenarios are being played out in other areas of Cambodia's economy, as more than US\$1 billion in international aid starts to trickle in to rebuild the war-ravaged country. While major companies manoeuvre for contracts to rebuild the country's infrastructure, traders are making money selling generators and bottled water. But so far, most foreign investment is concentrated in the service sector — hotels, tourism and retail outlets. Most of the money comes from within Asia, with investors from Taiwan, Thailand, Hong Kong, Singapore and Malaysia the most active.

The officials who came to power through the UN-organised elections one year ago are trying to change the shape of foreign investment in Cambodia. A new investment law, expected to be passed by the National Assembly when it recon-

simultaneously. It is terrible.

What role would you like to play?

More and more people are asking me, even from the parliament, to rebuild the Sangkum Reastre Niyum [an all party platform Sihanouk had built in the 1960s]. But it is too late. Ranariddh told me yesterday Funcinpec is ready to follow you, if you rebuild the Sangkum. But I am 72 and sick. If I were 40 or even 50 years of age, I could have taken in hand all these things. I could



NAYAN CHANDRA



NAYAN CHANDRA

Ranariddh (top) and Hun Sen: bridging the telecommunications gap.

venes this month, provides incentives for longer-term projects and new industries. According to a copy of the law obtained by the REVIEW, profits will be taxed at 20%, with full exemptions for ventures that will "increase non-traditional exports" and "increase value added in production," as well as for investments within designated industrial zones.

"This is a liberal, sensible, well thought-out" law that will provide "positive incentives to encourage investment," said a Phnom Penh diplomat. He called the code "more than competitive" with those of other countries in the region.

The new law is the work of the team of technocrats who hold the economic portfolios in the government. Led by iconoclastic Economy and Finance Minister Sam Rainsy, these planners have been winning near-universal praise from investment analysts, international lending institutions and donor countries. Like Rainsy, many are overseas Khmers

have carried out reforms and even brought the Khmer Rouge in. What I can do now is prevent the Khmer Rouge from being branded outlaws.

[We will have problems] if the Khmer Rouge creates a stretch of territory in the north that will be open to free movement by the Thais. Thus, the Thais and the Khmer Rouge will gain, but it is Cambodia which will die. On the east the border posts are walking. It's like in *Macbeth*, it's the forest that walks trying to fell us, bring death to the Kingdom of Cambodia. Whether it is kingdom or republic does not matter. I assure you. You can write I am ready to have a republic as long as Cambodia is saved. For me it is Cambodia and not the monarchy. ■

newly returned from Europe, Australia or North America. They have drafted new banking, tax and investment codes that have turned the stagnant bureaucracies of their communist predecessors upside down.

The lack of infrastructure is a primary hindrance. Roads to the 21 provinces are in dismal condition, often unpaved or severely potholed. Many stretches are threatened by Khmer Rouge insurgents or infested by bandits, many of whom are members of poorly paid government security forces. Coca-Cola recently suspended much of its provincial distribution as a result of renewed strife.

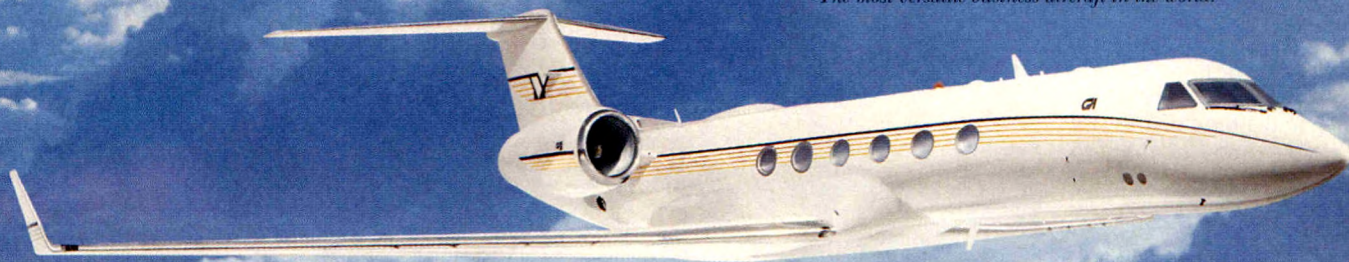
Earlier, company officials calculated they were paying an average of 7 U.S. cents a can in illegal "road taxes" for the 300-kilometre trip on Highway 5 from Phnom Penh to Battambang. Power outages, meanwhile, are the rule rather than the exception in most parts of Phnom Penh.

Efforts to rebuild the country's infrastructure have attracted the interest of foreign investors, however. Intercore, a U.S. company, announced in April that it had signed a preliminary accord with the Cambodian Government to build an estimated US\$156 million gas turbine to supply 100 megawatts power to the capital.

Phnom Penh had less than 2,000 phone lines in 1992 — all on an archaic Soviet system that had only four operator-assisted international lines serving the entire country. The provinces had no phone systems reaching other parts of the country. More than 9,000 new phones have come into operation since then, more than half of them on mobile networks. Another 5,000 land lines will be available by the end of the year. And for investors undaunted by the risk, the government is soliciting bids to repair and operate the network left by the UN. ■

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SETTING THE STANDARDS
OTHERS FOLLOW.

About Face

U.S. Asia policy architect has a change of heart

By Susumu Awanohara in Washington

It's just as well Americans don't share the Asian horror of losing face. If they did, Winston Lord would probably have committed the Washington equivalent of *hara-kiri* by now. As assistant secretary of state for East Asia and the Pacific, Lord is widely seen as the chief architect of America's Asian policy and a leading exponent of its controversial linking of human rights and trade. But now he has suddenly reversed position and is criticising the policies he was instrumental in formulating.

Evidence of the about face came in the form of a leaked internal memo from Lord to his boss, Secretary of State Warren Christopher. The memo, written last month, suggests that President Bill Clinton's key Asia officials are preparing the ground for a significant softening of the insistence on human rights that has so irritated Asian governments. East Asian countries wanted — and have been convinced of — America's continued engagement in their region, but "they now are beginning to resist the nature of that engagement," Lord warned Christopher in the memo. "A series of American measures, threatened or employed, risk corroding our positive image in the region, giving ammunition to those charging we are an international nanny, if not bully."

Washington is rife with speculation about the reasons for Lord's sudden change of heart. The memo "is a stunning self-indictment," says East Asia specialist Robert Manning, who served in the Bush administration's State Department. "The problems he cites are a direct outcome of the missionary approach to Asia Lord has propounded." Many Asia hands inside and outside government suspect that Lord, who is being blamed by United States businessmen and the foreign policy establishment for Clinton's embattled China policy, may be trying to save his job.

Lord himself insists that he is not seeking to shift the blame to others for a failed policy. "The purpose of the memo is to look at problems as well as successes and make course corrections where necessary," he told the REVIEW. Asian diplomats in Washington appear, for the most part, to

welcome the public airing of a memo more or less summarising their grievances. "Let's wait and see what Lord can do about them," as one Asian diplomat puts it.

There is little that is surprising in the memo's list of problem areas for the U.S. in Asia: with Japan over trade; with China over human rights; with China and Thailand over weapons proliferation; with Indonesia and Malaysia over workers' rights; with Singapore over the caning of a teenage American vandal; with Taiwan over endangered species; with Laos over narcotics control; and with most of Asia over



Apec summit, 1993: what's happened to the community spirit? Inset: Lord.

the proper approach towards Burma.

Nor is Lord's estimation of the likely consequences of aggressive unilateralism on Washington's regional standing particularly surprising. His list of the likely consequences includes:

- ▶ weakened U.S. influence in the Asia-Pacific Economic Cooperation (Apec) forum;
- ▶ less Asian receptivity to U.S. views in regional security dialogues; and
- ▶ ammunition for Malaysian Prime Minister Datuk Seri Mahathir Mohamad, who wants to create an Asian economic entity excluding the U.S.; and for Chinese leaders and others charging that the U.S. wants to dominate East Asia.

As various critics of administration policy had done before him, Lord enumerated in his memo recent instances of Asian countries disagreeing with U.S. policy and

refusing to follow it. These include former Japanese Prime Minister Morihiro Hosokawa's "undercutting of us on human rights during his China visit," South Korean President Kim Young Sam's "softer pitch in Beijing on the [North Korean] nuclear issue" and the Bangkok meeting of Asian officials last year "which sought to counter the universality of human rights." Lord adds: "All of this is played out against the backdrop of dwindling resources in personnel, overseas posts and aid levels for this priority region."

Just days before the *Washington Post* first wrote about Lord's memo on May 5, a senior White House official expressed alarm at the "rapidly eroding good will established in Seattle last November," when Clinton hosted the first Apec summit and declared the advent of a "Pacific Community." The official told the REVIEW: "There's a feeling in Asia that U.S. policy is becoming, once again, a list of complaints. There's deep-seated suspicion that the U.S. does not mean what it says."

Such confusion and resentment over U.S. policy is widespread in Asia. Former U.S. Sen. Adlai Stevenson, now an investment banker and active member of the semi-official Pacific Economic Cooperation Council, writes in a forthcoming report: "At no time since the end of World War II has such a broad spectrum of opinion in the Pacific viewed the U.S. as increasingly isolated and its policies the central 'problem' of the region." Stevenson thinks "this perception of the U.S. is as much a function of growing regional consciousness and confidence as it is resentment towards policies which are seen as threatening protectionism and

the propagation of Western values."

William Watts, president of the policy group Potomac Associates, recently returned from a month's travel in East Asia and says he is disturbed by the spread and intensity of Asian doubt about U.S. policy. "Everywhere they asked me: 'Why do you go out of your way to annoy and alienate those countries that you say are of vital interest to you?'" Watts says.

Australia's Ambassador to the U.S. Don Russell, meanwhile, has taken to publicly criticising U.S. policy towards Asia, albeit ever so gently, stressing that the criticism comes from a "trusted friend and partner." "Australia is one Asia-Pacific nation which holds almost identical values as the U.S. on the issue of human rights, but which has



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taken a different approach to achieving results with China," Russell said in a recent speech, adding that dialogue may yield higher returns than confrontation.

Many Asia watchers here were completely unprepared for Lord's abrupt change of mind. As a key Asia-policy maker, many said they felt he should be defending the policy, at least in public, rather than criticising it. And, indeed, until recently, Lord spoke effusively in public about Clinton's vision of a Pacific Community "based on shared strength, shared prosperity and a shared commitment to democratic values" and catalogued the "successes" of the president's Asia policy, including the Apec summit, forward movement with Vietnam and support for a democratic Cambodia. More recently, however, Lord started suggesting that "some Asians may be questioning the nature and the style of [our] engagement" in the region.

Lord's detractors in business, on Capitol Hill and in policy circles speculate that he wrote the memo — and also perhaps leaked it — to dissociate himself from his own policies, notably one formally linking China trade and human rights. One theory along these lines says that Lord was trying to pre-empt another internal government report critical of current China policy before it reached the top. Another theory is that Lord wants to survive the rumoured resignation of Christopher.

Lord's colleagues in the State Department discount such speculation, saying the memo's contents were the "staple of senior staff talks for months." They noted that the memo was first drafted by another State Department official before it was redrafted by Lord, and that Lord wanted to discuss policy adjustments at the upcoming meeting of chiefs of U.S. missions in Asia in Hawaii in June. The memo was thus circulated among all mission chiefs.

Among other suggestions for policy or "style" changes, Lord suggests that the U.S. should "temper our rhetoric and work with the U.S. Congress to reduce expectations" about quick fixes; "oppose or readjust proposals from other agencies, often pursued for domestic reasons, when we are convinced that they will prove ineffective" or counterproductive; and "weigh more carefully the costs/benefits of taking unilateral actions and consider multilateral alternatives."

Some observers suspect that Lord has stepped on too many toes with his memo and that his days as assistant secretary are numbered. Others disagree. Former Congressman Stephen Solarz, an Asia expert, says: "I'm pleased to find out that a man of Win Lord's stature and significance has recognised that we are pursuing some flawed policies, and I hope he is in a position to change these policies and put them in proper priority." ■

MALAYSIA

King and Country

Government further clips rulers' wings

By Michael Vatikiotis in Kuala Lumpur

A blow to democracy? Or a clarification of the principle of constitutional monarchy? Opposition political parties and legal watchdogs in Malaysia are crying foul over constitutional changes that they claim dilute the country's democracy. The government, however, insists that the changes are designed to iron out ambiguities in the country's parliamentary system. Either way, the 1994 Constitution (Amendment) Act makes it clear that the king can only act on the advice of the government. The judiciary, meanwhile, must abide by a government-prescribed code of ethics.

Until now, the king has had the right to withhold assent from legislation and return it, within 30 days, to parliament for reconsideration. The amendment to the constitution makes it clear that the king must assent to a bill within 30 days. If he does not, the bill becomes law anyway, "as if he had assented to it."

"There is no point whatsoever for the monarchy now," says Tunku Razaleigh Hamzah, leader of the opposition Malay party Semangat 46. Razaleigh alleges that the changes could threaten clauses of the constitution under which the king safeguards the position of the Malays and the Malay language. He wonders if the government's move amounts to another step in a slow run-up to the abolition of the monarchy.

Arifin Omar, of the non-governmental social organisation Aliran, says the change "knocks the daylight out of whatever democracy we have left in this country." Arifin argues that doing away with the need for royal assent undermines the separation of powers implicit in the constitution and greatly strengthens executive power.

But Law Minister Datuk Syed Hamid argues that the amendment is only making

clear that in a constitutional monarchy the king must act on the advice of the government. "It neither affects the rights of the rulers nor their role in parliament," he says.

Malaysia's lawyers, for their part, are concerned about the implications of the code of ethics for judges proposed in the bill. Such a code may be a fine idea in principle, says the Malaysian Bar Council in a statement. But the fact that the code of conduct would be drawn up by the government, rather than the judges, "would remove any separation between the judiciary and the executive."

Opposition members became suspicious about the constitutional changes after the first reading of the bill on May 5. Only then, claims opposition leader Lim Kit Siang of the Democratic Action Party (DAP), did they have an inkling of what the bill entailed. "It is clearly unfair for the government to expect parliament to pass it without giving adequate notice for MPs not only to study the bill, but also get feedback from the public," Lim told parliament on May 9, on the first day of a two-day debate on the issue.

Apparently, no one in the opposition camp had any idea that the amendments,

which were previewed as dealing with setting up an appeal court, would tackle such weighty issues as the removal of judges and royal assent to legislation. Despite these objections, few political observers expect more than a token protest over the constitutional changes. For one thing, says Karpal Singh of the DAP, the lack of time for debate will prevent the public from realising the bill's broader implications. "The government is not keen to generate a

controversy so close to elections."

Government officials would not say if the rulers had been informed of the amendments, which provoked a constitutional crisis when proposed in a similar form a decade ago. But no serious protests are expected from Malaysia's nine hereditary rulers at this further clipping of their already well-pruned wings. The monarchy's stock in the public eye has been low in the wake of a spate of revelations since late 1992 about their abuse of power and privilege. As the DAP's Lim Guan Eng points out, the government's timing is good. "Conditions are very conducive [to changes in the monarchs' power] because people feel the rulers have overstepped the bounds of their authority." ■



Malaysia's king: debate on powers.

HONG KONG

Future Shock

Top Chinese official talks tough in the colony

By Louise do Rosario in Hong Kong

Business, yes; politics, no. That was the message China's top official in charge of Hong Kong affairs brought to the colony during his hectic eight-day visit. Lu Ping, director of the State Council's Hong Kong and Macau Affairs Office, assured the local people they will continue to *fat choy*, make money, after 1997. But at the same time, Lu issued a blunt warning to those active in politics: "Hong Kong has always been an economic city, never a political city," he said. If anyone attempts to use the colony to influence Chinese politics, "Hong Kong would be of negative value instead of positive value to China. This would be disastrous for Hong Kong."

Lu was visiting the colony for the first time in two years to celebrate the Bank of China's inaugural issue of local banknotes. Leading a team of over 20 senior Chinese officials, he also chaired meetings of the Preliminary Working Committee (PWC), the body that advises China on matters relating to the takeover of Hong Kong. Lu, who refused to meet Governor Chris Patten during his visit, was besieged by the press and protesters wherever he went, and spent much of his time ducking in and out of back doors and underground passages, acting like "a frightened tortoise keeping its head inside its shell," as one local daily put it.

When Lu finally spoke, it was to issue a stern warning to local pro-democracy politicians who have been lobbying for broader-based elections and more elected seats in law-making bodies. In a few weeks' time, the Legislative Council (Legco) is to discuss proposals to widen the electorate. Modest though these proposals may be by Western standards, Beijing fears they would weaken its control over Hong Kong after 1997.

"Lu's message is oversimplified and short-sighted. There's no place in the world where you can separate politics from economics," says Legco member Cheung Man-kwong, one of the liberal politicians Lu obviously had in mind when he issued his warning.

Despite the freeze in Sino-British relations that the visit reflected, there were a few signs of a possible thaw. While China continues to give Patten a cold shoulder

over the democratic reforms he has introduced, it is quietly moving ahead to solve urgent Hong Kong economic issues with Britain. Legislator Fung Kin-kee, recently in Beijing, says he has the impression from talking to Chinese officials that the two countries "are quarrelling on the surface, but are mending fences behind the scenes."

One Hong Kong project that will benefit from Beijing's more conciliatory mood is the new, multibillion-dollar airport. Since 1989, China has used the project as a bargaining chip in its campaign to stop Britain



Airport project: encouraging remarks from China.

from introducing election reforms in Hong Kong.

Now that the passage of the reforms is a foregone conclusion, however, Beijing will be hurting its own economic interests in Hong Kong if it continues to block construction of the airport. "I believe we can reach an airport proposal acceptable to both sides soon," Lu said in Hong Kong, the first positive statement he has made about the project for months. Experts on both sides are to meet in mid-May; if an agreement on the airport is reached, it will be announced at the end of the month, when higher-level officials meet at the bilateral Joint Liaison Group. "China has to come to terms with reality. Britain already has made a lot of concessions over the project," says Cheung.

Another problem which could be approaching resolution is the disposal of 39 military sites in Hong Kong. Britain has argued that military land not used by the Chinese military after 1997 should be devoted to commercial development. Such a move will generate revenue for Hong Kong and would also restrain the army's involvement in local business. Chinese of-

ficials have approved the idea in principle.

While China may be more receptive on economic issues, it is sticking steadfastly to its hard line on politics. Lu did not meet with any liberal politicians in the colony, sticking to meetings with staunch Beijing supporters. Even Fung, who has managed to meet with Lu in the past, was turned down. Lu's delegation "only wanted to talk to those who agree with them," he says.

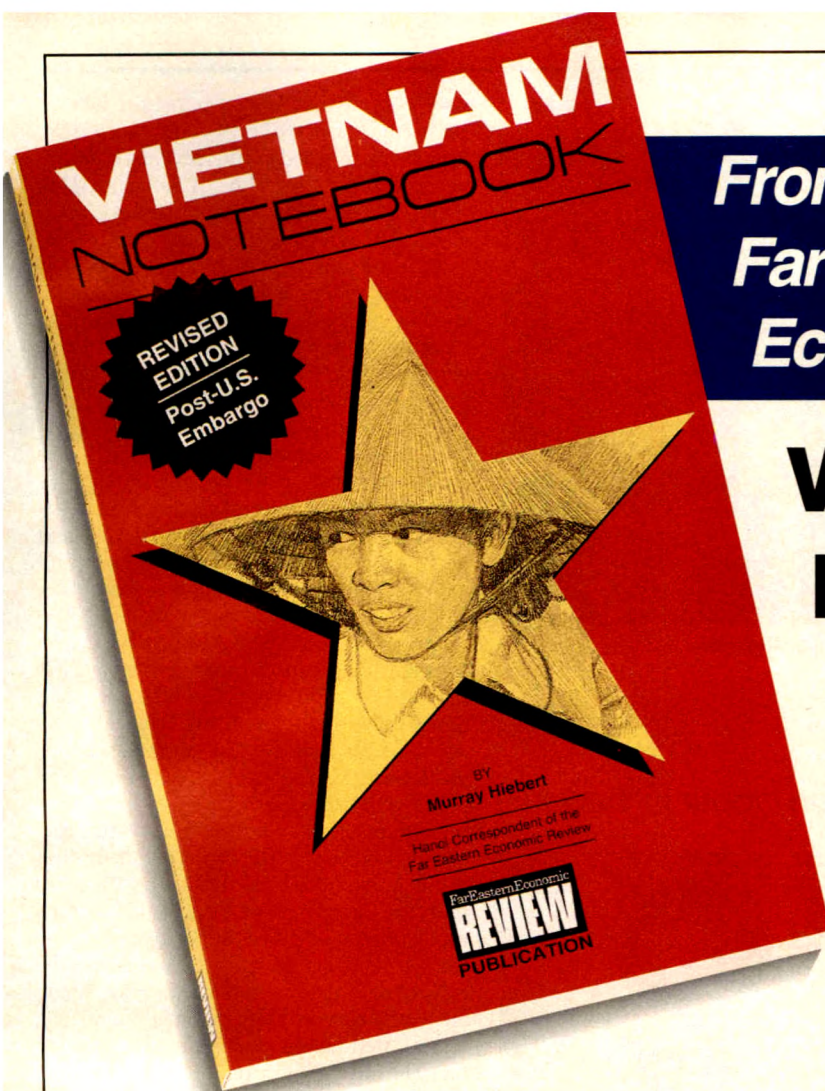
Cheung, who is president of a leading teachers' trade union, laments that the "Lu of the 1980s was very different from the Lu now." A decade ago, China was trying to secure Hong Kong's support for its 1997 takeover. "Lu then was very patient and willing to listen to the different views of Hong Kong. The impression we had of China then was one of tolerance and openness." Today, "Chinese leaders have turned ultra-conservative in all matters, Hong Kong included, because of the struggle over political succession."

Ching Cheong, editor-in-chief of the China-watching monthly *Contemporary*, says Lu's visit is "a bad omen" for already-strained Sino-Hong Kong relations. Lu was "hiding away from the public, as if he was surrounded by enemies." There were few cordial exchanges with the local community, only fears and mistrust, he said.

Such pessimism was further highlighted by a no-confidence vote in Legco called by legislator Martin Lee. The motion condemned Britain and China

for failing to keep the promises they made to Hong Kong in the Joint Declaration of 1984. The document promised Hong Kong autonomy and freedom after 1997, but Lee argued that both countries had reneged on their pledges "before the ink was dry." "The solemn document is in tatters, its key provisions gutted and tarnished," he said on Lu's third day in Hong Kong. In an unusual act of unanimity, Lee's motion was passed with little dispute.

The sober mood in the colony was underscored by television footage screened during Lu's visit showing the Beijing official inspecting Chinese army units which are to be stationed in Hong Kong after 1997. China further flexed its political muscle by arranging for the PWC to hold its meetings in Hong Kong during Lu's visit, instead of in Beijing as in the past. This has greatly lifted the committee's profile and "set the bad precedent of allowing this shadow cabinet to interfere in Hong Kong's affairs before 1997," says Ching. All these moves are part of a psychological game, wrote the *Hong Kong Economic Journal*, "a rehearsal of China's takeover of Hong Kong." ■



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TAIWAN



Centre of controversy: prison factory workers producing plastic flowers.

Air Mail

Inmate's note turns spotlight on prison labour in Taiwan

By Douglas Habecker in Taichung

Liu Hsin-ping's English isn't perfect, but he certainly managed to get his message across. The convicted felon slipped a hand-written note inside the packaging of a toy airplane at a prison factory in Taiwan. When 10-year-old Eddie Tucker unwrapped the styrofoam airplane halfway around the world in Palisade, Colorado, it landed Taiwan in the middle of a raging international controversy over prison labour.

"Hey lucky friends," the note read. "This toys make in prison Taiwan, R. O. C." Giving his name, Liu urged the reader to "investigate Taiwan R. O. C. disobey! international human right law . . . Tank you!" On the back, according to a press report, it asked that the note be sent to "Human right box, the white house."

The note, which was found in April, might not have caused much of a stir under other circumstances. But the United States and China are engaged in a public row over prison labour, with U.S. lawmakers and human-rights advocates accusing China of feeding its trade surplus with cheap goods built by convicts, including political prisoners. The U.S. bans imports of prison-made goods, so Taipei officials are understandably worried that the incident could have economic repercussions. They also fear further damage to the island's international image, recently battered by the U.S. decision to impose sanctions over Taiwan's reported failure to protect endangered wildlife.

But whether Taiwan likes it or not, its use of prison labour is now in the spotlight. In fact, all 19 of the island's prisons,



Liu meets the press in prison.

which house a total of 52,000 inmates, have factories, and prison rules require all able-bodied prisoners to work. Well, Taiwan officials ask, what's wrong with that? Some activists, notably from the opposition Democratic Progressive Party, claim there are serious human-rights abuses within the prisons, including forced labour and inadequate salaries. But the government, backed by some independent observers, portrays the system as a model of reform through productive work.

"It is absolutely legal to have prisoners work when they are serving their terms," states Justice Minister Ma Ying-jeou, saying neither human-rights conventions nor international law was being violated. Inmates are not forced to work and they are paid for their labour. "Sometimes they even get higher pay than other factory workers, so we're not abusing them."

So far, the American response has been muted. The State Department has taken

note of Taiwan's rules on prison labour, reaffirmed the policy of not accepting prison-made goods, and promised to investigate the allegation of human-rights abuses made by Liu. Human-rights groups also say they will examine the case.

A look inside the men's prison at Taichung, where note-writer Liu is held, sheds some light on the reality of the prison labour system — and its close links to private industry. Tai Yung-shen, a Taichung prison supervisor, says his facility has 40 factories employing 130-180 inmates each. Working on contract to 70-80 private companies, they produce a wide range of inexpensive consumer items, including Christmas decorations, toys, plastic flowers and pens, as well as various handicrafts and some electronic goods, such as computer keyboards.

Prisoners' compensation is based on average wages in the manufacturing sector, and is stipulated in contracts signed annually with outside firms. Ironically, because of an island-wide labour shortage, the Justice Ministry says that many companies pay up to 20% more for prison labour than they would pay on the outside, simply because of the difficulty of finding other subcontractors. This was the case with the Pingyang Art Printing Co., which made the toy airplanes at Factory 16 where Liu works. Owner Ou Tsung-ming says the factory packaged about half the 600,000 toy airplanes his company produced monthly, adding that he was willing to pay the prisoner's slightly higher prices because of superior quality, good location and ease of management.

"Taiwan's prisons in no way compare with the Chinese mainland," said Huang Ming-chen, director of the Christian Born Anew Fellowship, which ministers to the inmates. "It's not forced labour, but a way to kill time and earn money." To illustrate his point, the minister cited a Malaysian detained for two years in Taiwan who, upon returning home, was able to show off NT\$20,000 (US\$758) earned in prison factories. "They don't learn any skills, but it's still better than doing nothing," said the minister, a former police officer who studied criminal justice in the U.S. "I've seen a lot of American prisoners who just hang around in prison yards."

The pay that Taiwan prisoners actually pocket, however, averages only about one fifth that of outside workers. Wages range from NT\$60 per day for the least skilled to NT\$400 for skilled workers from minimum-security prisons who commute to outside factories. But according to supervisor Tai, the inmates are paid just 40% of their wages, plus a 5% bonus for productivity. The government takes 35%, with the remaining 20% deducted for food and other expenses.

An independent source well-acquainted with Taiwan's penal system says that if



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1993 RESULTS

Consolidated Profit And Loss Account
For The Year Ended 31st December, 1993

	1993 HK\$'000
Turnover	
Continuing operations	256,330
Discontinued operations	113,965
	<u>370,295</u>
Operating Profit	
Continuing operations before exceptional items	34,592
Exceptional items	4,045
	<u>38,637</u>
Discontinued operations before exceptional items	(632)
Exceptional items	12,581
	<u>11,949</u>
Operating Profit Before Contribution	
From Associated Companies	50,586
Contribution From Associated Companies	<u>(18,168)</u>
Profit Before Taxation	32,418
Taxation	<u>(6,474)</u>
Profit Before Minority Interests	25,944
Minority Interests	<u>(3,019)</u>
Profit For The Year	<u>22,925</u>
Dividends	<u>28,242</u>
Special Cash Bonus	—
Earnings Per Share (cents)	<u>2.9</u>
Dividend Per Share (cents)	
Interim	1.5
Final	<u>2.0</u>
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human-rights abuses do occur, they do so not because of low pay but because of the high demands on workers. "The justice minister keeps talking about the amount prisoners are paid, but that's not the issue," the source said. "If there is a human-rights problem in the prisons, it has to do with quotas which prisoners are assigned for daily production."

Prisoners come under heavy pressure to meet the output targets specified in the factories' contracts with private firms, and those who fail to fulfil their quotas are given demerits. "This makes prisoners very angry," the source says. A relative of one inmate says that when prisoners can't meet their individual quotas, they are obliged to pay other prisoners to help out. The problem, the relative asserts, is that prison officials are less interested in rehabilitating convicts than in making money.

Prison authorities, on the other hand, are downplaying the issue. They say they have no control over whether or not prison-made goods end up on store shelves in the U.S. "Companies only give us materials and products to work with, but the contract doesn't govern where the products are sold," says Tai. "We often make only a part of the product. We may do handicrafts or packaging, and then it goes back to the company."

To bolster its argument that the U.S. should not be upset, the Justice Ministry points to a major loophole in the U.S. Tariff Act, which prohibits import of convict-made goods. According to the ministry, the law states that "in no case shall such provisions be applicable to goods . . . which are not . . . produced in such quantities in the U.S. as to meet the consumptive demands of the U.S."

Liu, the prisoner who started the whole ruckus, is being portrayed by authorities as a troublemaker with a grudge against the system. His wardens use the word "unbalanced" to describe the 40-year-old prisoner, who they say is serving 12 years and nine months for robbery, rape and larceny. Liu was disciplined twice previously: once for assault and once for writing an unauthorised letter complaining about officials' supposed lack of regard for his health. He has also filed lawsuits — all of which have been dismissed — against the policemen who interrogated him, a prosecutor, judges and other court officials.

Pingyang Art Printing, which made the toy airplane, had its prison labour contract revoked after it was found to be operating in a residential area without a licence. Ou Tsung-ming, its owner, is claiming to be the biggest victim of the whole debacle and is threatening to sue whoever is responsible for destroying his reputation. Taiwan officials are meanwhile bracing for more unpleasant overseas discoveries, since Liu has admitted to stuffing five other toy packages with similar pleas. ■

BURMA



Wa troops: time to think of business.

Conflict of Interests

Army chief's promotion tilts factional balance

By Bertil Lintner in Bangkok

For Khin Nyunt, Burma's powerful intelligence chief and first secretary of the ruling State Law and Order Restoration Council (Slorc), Enemy No. 1 is the country's urban-led democracy movement. To suppress it, he has been willing to make overtures to the ethnic insurgent groups who have sheltered political dissidents. For the field army commanders who share power with Khin Nyunt, however, the biggest priority is crushing Burma's ethnic guerilla groups. In their dealings with the democracy movement, meanwhile, some army commanders have shown relative flexibility.

It is in the context of these differing priorities, say observers in Rangoon, that the April 27 promotion of the army commander-in-chief, Lieut.-Gen. Maung Aye, to the vice-chairmanship of Slorc must be placed. A former commander of the eastern military region in rebellious Shan state, Maung Aye has made a career fighting ethnic and other insurgents. He is a graduate of the prestigious Defence Services Academy — from the same batch as the trade minister, Lieut.-Gen. Tun Kyi. Commander until October 1992 of the Mandalay region, Tun Kyi is said to have used as little force as possible to defuse the democracy movement in Mandalay city.

"There is a triumvirate emerging in Burma," says a Rangoon-based diplomat. "Tun Kyi and Maung Aye have been joined by Lieut.-Gen. Tin Oo, the army chief of staff. Together they act as a counterweight to Khin Nyunt." As a consequence of these new alignments, words such as "hardliner"

and "moderate" are becoming increasingly irrelevant to the Burmese political equation. "It is not that some officers are hard line and others are moderate," says another Rangoon-based observer, "they just have different enemies and act in different ways to counter them."

In Khin Nyunt's case, that meant making deals with minority rebel leaders. In the general election of 1990, the urban democracy movement propelled now-detained leader Aung San Suu Kyi's National League for Democracy to a landslide victory. When the military refused to honour the results of the election, thousands of urban activists

fled to Burma's border areas, there to take refuge with the ethnic rebels fighting Rangoon's forces. But Khin Nyunt kept up the chase. He offered to go slow on the ethnic rebels if they denied the dissidents safe bases from which to continue their anti-junta activities.

One by one, the guerilla groups gave in. The first were the Wa and Kokang forces of the former Communist Party of Burma, which made peace with Rangoon as early as 1989. The biggest blow to the alliance between the urban activists and the ethnic rebels was delivered on February 24 this year, when the Kachin Independence Army (KIA) signed a peace treaty with Rangoon. One of Burma's biggest ethnic rebel armies, the KIA is host to some 700 pro-democracy activists. These include six MPs who were elected in 1990 and then prevented from taking office. The activists have now been told by the Kachins to remain inactive or leave Kachin-controlled territory.

In return for a cease-fire, the former insurgents have been permitted to engage in commerce. It has become common to see former rebels, armed and in full uniform, driving in their jeeps and pick-up trucks into northern towns such as Lashio and Mandalay to conduct business. Mandalay is rapidly developing into the new economic centre of Burma, overtaking even Rangoon. Politically too Mandalay is emerging as a much more open city than Rangoon.

All this hasn't gone over too well with the field army commanders who have spent much of their lives fighting the ethnic rebel groups. "Khin Nyunt, who has little combat experience, is treating their former enemies as VIPs," says an observer. This is the crux of the new divide in Burmese ruling circles. The Slorc chairman, Gen. Than Shwe, is supposed to be above these divisions — and is likely to remain so for the foreseeable future, analysts believe. That, says a Rangoon-based diplomat, "is the key to stability in Burma. But it is clear that factionalism, once non-existent within the Burmese armed forces, is beginning to appear. This is the thing to watch." ■

Death Threat

Communist party rift may deepen into bloodbath

By Rigoberto Tiglao in Manila

It's hard enough being a communist these days, without your own comrades threatening to kill you. But instead of rallying around their embattled ideals in the wake of communism's global crumbling, the leaders of the Communist Party of the Philippines (CPP) have descended into mutual recriminations that have split the party in two. Arising from differences over strategy but fuelled by personality conflicts, the internal rift worsened sharply in early May, raising fears that the party would be plunged into a devastating bloodbath.

Facing a major challenge to his authority is Jose Maria Sison, the party chairman who lives in exile in the Netherlands. The CPP politburo, which Sison controls, recently voted to order the arrest of four breakaway communist leaders, including Filemon Lagman, head of the party organisation in Manila. "Lagman . . . remains armed and dangerous, in the company of his armed gang-mates and therefore subject to battle operations by the NPA [the communist-led New People's Army],"

Sison warned in a May 2 statement calling on the "counter-revolutionary" cadre to surrender.

"It's practically an execution order," says Lagman, claiming a hit squad sent by Sison is already in Manila. "We definitely won't allow ourselves to be captured and tried in Sison's kangaroo court." Issuing a threat of his own,

Lagman warns that if the arrest orders are not withdrawn, Sison's execution is "just a phone call away." Lagman controls the Alex Boncayao Brigade (ABB), an urban guerilla force believed to have links with armed communist groups abroad.

Party members fear that if the killing starts it could quickly degenerate into the kind of bloodbath that severely weakened the party in the early 1980s, when numerous cadres were executed in a purge of



Sison faces a challenge.



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supposed government infiltrators. It would not be unheard of for government intelligence services to exploit the situation by assassinating communist leaders, then blaming their factional rivals.

The strength of the two factions is difficult to gauge, but Lagman says the approximately 20,000-member party is split roughly in two. He says he commands the largest force inside the breakaway faction — some 5,000 Manila members including the ABB urban guerillas. The other rebel leaders whose arrest Sison has ordered are former NPA chief Romulo Kintanar, former Visayas party organisation head Arturo Tabara, and Antonio Cabardo, formerly of the Netherlands-based CPP International Committee.

Sison's faction suffered a severe blow on May 6 when Wilma Austria, the party secretary-general and one of Sison's chief surrogates in the Philippines, was arrested along with three other ranking communist leaders. Lagman concedes, however, that many NPA commanders remain loyal to Sison. The rebels' position has been weakened by their failure to agree on a common leader and strategy, meaning that no alternative centre of power has emerged to seriously rival the Sison-controlled politburo. One of the rebels, Ricardo Reyes, has even been trying to form a third force not affiliated with either faction.

The rift within the CPP has carried over into its front group, the National Democratic Front, as well as labour unions and student groups. Since last year, members of either faction have been staging separate street rallies, even on the same issue.

Essentially, the CPP conflict is a rebellion against Sison's personal style. The rebels claim that Sison, the party's founder and chief ideologue, rules the communist movement like a despot from his comfortable exile in the Netherlands. The rivals have cloaked their conflict, however, with an ideological veneer. Sison has been insisting for 25 years that the party should pursue a Maoist strategy of peasant-based protracted war, while Lagman — arguing that a major part of the peasant labour force has shifted to the cities — says the stress should be put on urban mass movements and insurrections. The dispute has descended into personal recriminations as the party searches for scapegoats to explain its decline — especially since 1986, when the communists found themselves relegated to the sidelines as the "people power" revolution overthrew the Marcos regime.

The split within the party could endanger the peace talks between the government and the CPP begun in 1992. Even if an agreement were reached with the Sison-led faction, it would have little meaning unless it was also accepted by the rebels — especially Lagman, who controls a large urban guerilla force in the capital.

JAPAN

Foot in The Mouth

Minister's comments upset Asian neighbours

By Charles Smith in Tokyo

A slip of the tongue can cost any politician his job. But Shigeto Nagano's ill-judged remarks about what really happened when Japanese troops entered the Chinese city of Nanjing in 1937 may have done more than just force his resignation as minister of justice in the cabinet of Prime Minister Tsutomu Hata. By infuriating Japan's Asian neighbours at a critical moment for the region, Nagano may have put a serious crimp in Japan's defence and foreign policies.

Nagano committed his verbal gaffe less than a week after he was appointed to Hata's new cabinet. Speaking to a reporter from the *Mainichi Shimbun* newspaper, he said the notorious Nanjing massacre, in which at least 150,000 Chinese civilians are estimated to have been killed over a two-month period by Japanese troops, was a "hoax," and that the massacre "never really happened." He added that Japan was not really the aggressor in World War II because "we really believed in the Greater East Asian Co-prosperity Sphere."

The interview triggered a volley of protests from China to Vietnam. Japanese diplomats were forced to make hasty calls explaining that Nagano was not speaking for the Japanese Government. Nagano himself was forced to resign on May 7 after issuing a retraction in which he called the Nanjing massacre an "unfortunate incident" — a euphemistic phrase culled from Japanese school textbooks.

But the damage was done. "Nagano's

comments have created the impression that Japan is regressing in its attitude to the rest of Asia — not progressing, as seemed to be the case under former Prime Minister Morihiro Hosokawa," said a Singaporean journalist. Noordin Sopiee, an adviser on foreign affairs to Malaysian Prime Minister Mahathir Mohamad, agreed. "Nagano's comments amount to a repudiation of Hosokawa's statements that Japan was guilty of aggression in World War II," he told the *Asahi Shimbun*.

Sopiee said that coming from a man in Nagano's position, the comments were enough "to shake, if not destroy, confidence in Japan's intentions." Nagano is a veteran conservative politician who left the opposition Liberal Democratic Party in the summer of 1993 to join Hata's Japan Renewal Party. He served as a junior officer in the Japanese Imperial Army in World War II and went on to join the peacetime Self-Defence Forces (SDF), of which he became chief of staff in 1978-80.

His expertise in military affairs — including the legal and constitutional restraints on overseas deployment of forces — is believed to have found him favour with Ichiro Ozawa, the Japan Renewal Party co-leader. Political analysts suggest that Ozawa, rather than Hata, was responsible for arranging Nagano's appointment to the Justice Ministry when cabinet posts were being reallocated following Hosokawa's resignation in early April.

Nagano's expertise would have come in useful at the Justice Ministry, says Yasuhiro Tase, a political editor at the leading economic daily, *Nihon Keizai Shimbun*. The Japanese Government is urgently considering the drafting of new legislation to allow its military to take prompt action if fighting breaks out on the Korean peninsula. Such a scenario is considered a worst-case possibility if talks on inspection of North Korea's nuclear facilities break down.

Under the existing provisions of the SDF law, it would be difficult for Japan to provide logistical support to United Nations forces in Korea. And the law as it stands would certainly bar Japan from joining a naval blockade to enforce economic sanctions against the Kim Il Sung regime, experts say. Newly appointed Foreign Minister Koji Kakizawa recently confirmed that a package of emergency measures that would enable the government to deal with a Korean crisis is in the cards. But getting it through parliament would require the support of the Justice Ministry. Nagano's successor as justice minister, Democratic Socialist Party MP Hiroshi Nakai, seems unlikely to be as helpful as his predecessor in pushing for the urgently needed changes to the current emergency laws.



Nagano: war and forgetfulness.



TURN TO...

THE 5TH COLUMN



Kishore Mahbubani is permanent secretary in the Ministry of Foreign Affairs and dean of the Civil Service College, Singapore. This article is adapted from a piece he wrote for the *Washington Quarterly*, a publication of the MIT Press.

Go East, Young Man

By Kishore Mahbubani

For the last century or more, in the passage of ideas across the Pacific, the flow has fundamentally been one way. Poverty-stricken and backward Asian societies have looked to the United States for leadership. Not surprisingly, a deeply ingrained belief has settled in the American mind that the U.S. mission in East Asia is to teach, not to learn. The time may have come for this mind-set to change.

In a major reversal of a pattern lasting centuries, many Western societies, including the U.S., are doing some major things fundamentally wrong while a growing number of East Asian societies are doing the same things right. The results are most evident in the economic sphere. In purchasing power parity terms, East Asia's gross domestic product is already larger than that of either the U.S. or European Community. Such economic prosperity, contrary to American belief, results not just from free-market arrangements but also from the right social and political choices. Although many East Asian societies have assumed some of the trappings of the West, they have also kept major social and cultural elements intact — elements that may explain their growing global competitiveness.

In most Asian eyes, the evidence of real social decay in the U.S. is clear and palpable. Since 1960, the U.S. population has grown by 41%. In the same period, there has been a 560% increase in violent crimes, a 419% increase in illegitimate births, a 400% increase in divorce rates, a 300% increase in children living in single-parent homes, a more than 200% increase in teenage suicide rates, and a drop of almost 80 points in Scholastic Aptitude Test scores. A clear American paradox is that a society that places such a high premium on freedom has effectively reduced the physical freedom of most Americans, especially those who live in large cities. They live in heavily fortified homes, think twice before taking an evening stroll around their neighbourhoods, and feel increasingly threatened by random violence when they are outside.

The U.S., of course, is far from becoming as decrepit a society as many East Asian societies once were. It retains many

powerful centres of excellence. But elites do not cause civilisations and nation-states to rise and fall. These fall when leaders fail to mobilise their populations, especially the man-in-the-street. Many Asian cities — from Shanghai to Bombay, Bangkok to Jakarta — had or still have sections that are far poorer than Harlem or Watts. But none of these cities has experienced the social breakdown seen in America. The reasons are too complex for a single article, but it should be noted that in Asia, one simple glue that has held society together is the family.

This is an area where American society could benefit if it tries to draw closer to

Many Asian cities have had or still have sections that are far poorer than Harlem or Watts, but none of these cities have experienced the social breakdown seen in America

East Asia. East Asian societies are by no means universally harmonious. They have their share of family and social breakdowns. But, relative to most societies in the world, they are disciplined and cohesive. Social order prevails. The deep value placed on family in Asian societies is not easily erased. True, family cohesiveness is not always an unmitigated blessing. It breeds nepotism. It can also create a suffocating home environment. But it does generate, relatively speaking, greater social harmony.

To any Asian, it is obvious that the breakdown of the family and social order

in the U.S. owes itself to a mindless ideology that maintains that the freedom of a small number of individuals who are known to pose a threat to society (criminals, terrorists, street gang members, drug dealers) should not be constrained (for example, through detention without trial), even if to do so would enhance the freedom of the majority. In short, principle takes precedence over people's well-being. This belief is purely and simply a gross violation of common sense. But it is the logical end-product of a society that worships the notion of freedom as religiously as Hindus worship their sacred cows. Both must be kept absolutely unfettered, even when they obviously create great social discomfort.

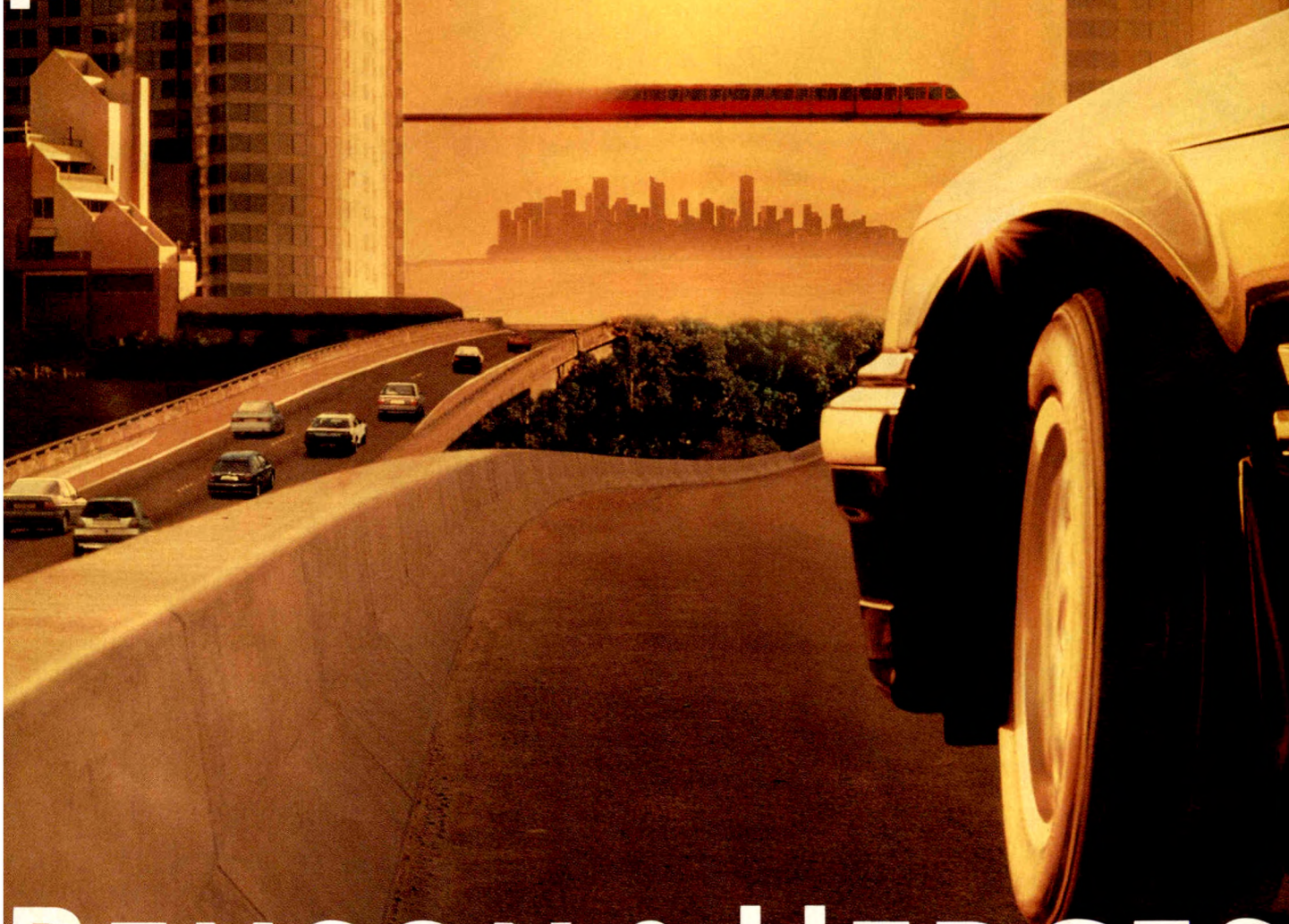
It is vital for Americans to keep in mind, when they hear of East Asia's criticism, that no East Asian nation — perhaps not even North Korea — wants to see a weak or incapacitated U.S. that is unable to sustain its global responsibilities. In more ways than one, the American presence has been immensely civilising for East Asians. It has opened East Asian minds to the more generous aspects of Western civilisation. By imposing a geopolitical order, however subtly and benignly, the U.S. has also prevented the emergence of a number of conflicts among traditionally suspicious East Asian neighbours. In short, East Asians have much to be grateful for to the U.S. and, perhaps most importantly, an even more vital interest in seeing that a strong American presence continues in East Asia.

My hope is that Americans will come to visit East Asia in greater numbers. When they do, they will come to realise that their society has swung much too much in one direction: liberating the individual while imprisoning society. The relatively strong and stable family and social institutions of East Asia will appear more appealing. And as Americans experience the freedom of walking on city streets in Asia, they may begin to understand that freedom can also result from greater social order and discipline. Perhaps the best advice to give to a young American is: "Go East, Young Man."

TURN TO

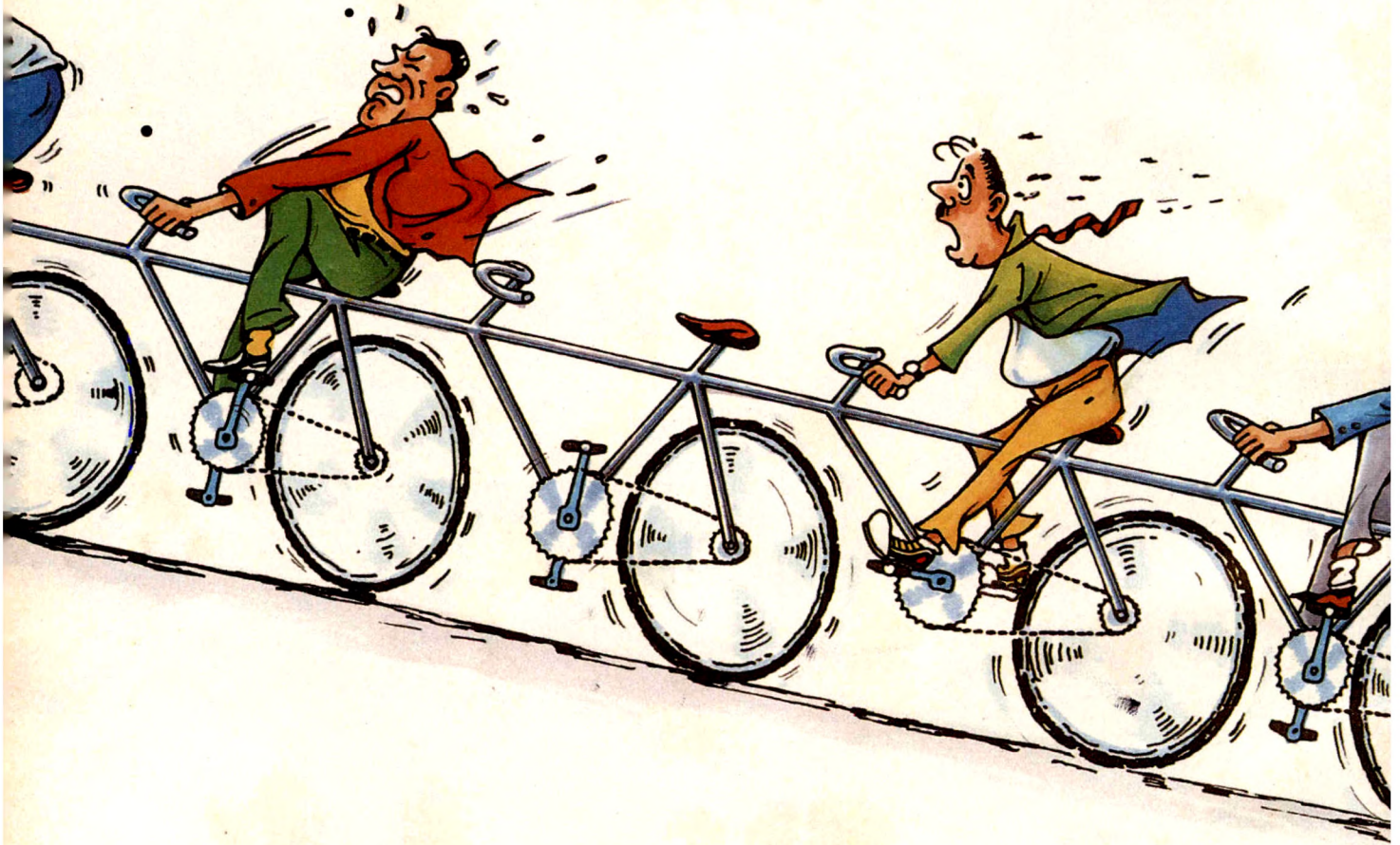


GOLD



BENSON & HEDGES

WITHOUT A IT'S UPHILL



Why has the Republic of China on Taiwan, one of the world's strongest democracies, been banished from the world stage? Such exclusion from the U.N. and other world forums is unfortunate and detrimental to world affairs.

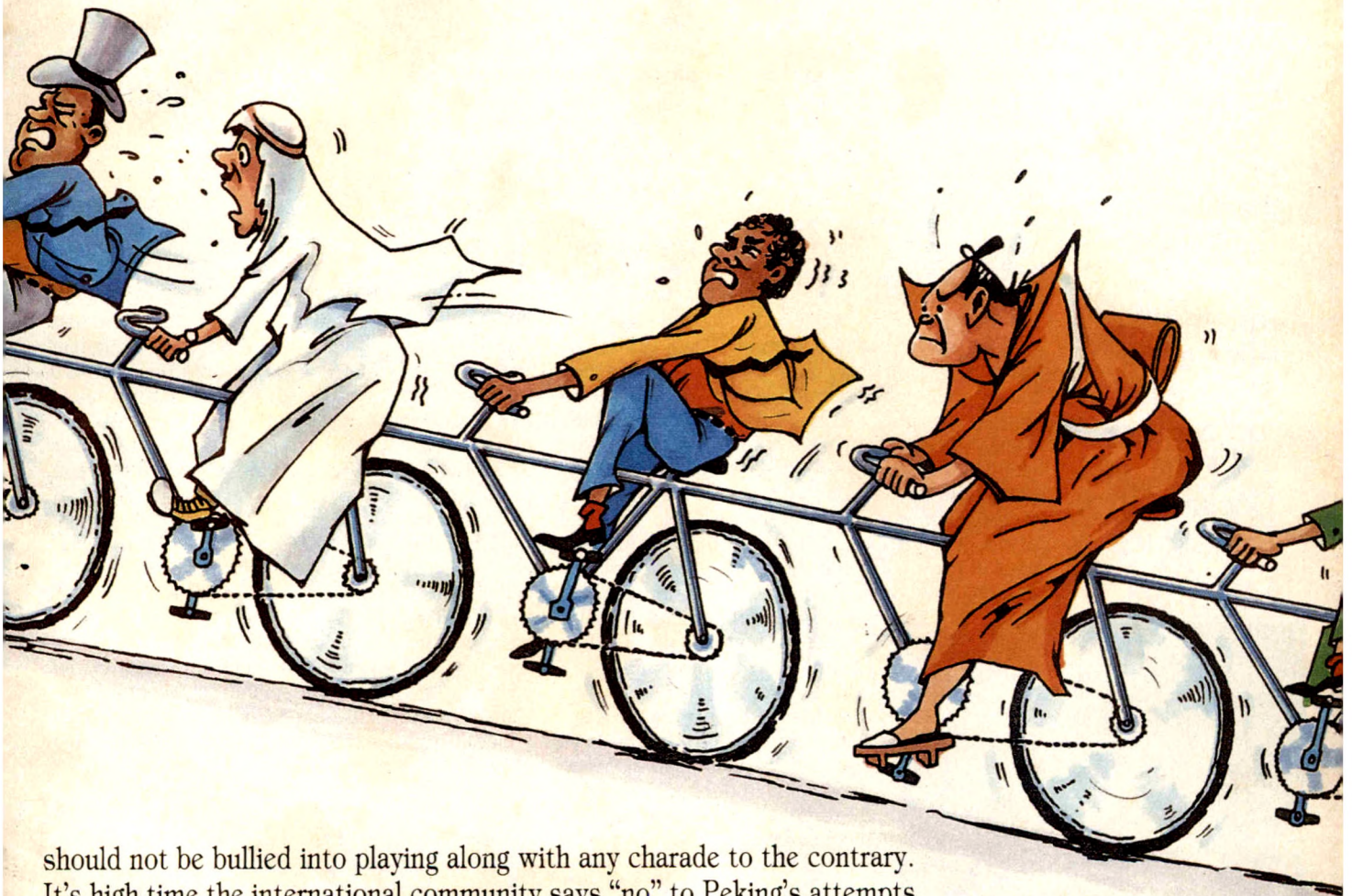
All because of rhetoric that ignores reality.

Communist China says the Republic of China on Taiwan does not exist. But that's a ploy which simply won't work anymore. How is it possible to ignore 21 million people, who make up the world's 20th largest economy, 14th largest trading nation, a blossoming democracy, and a colorful culture?

Communist China also argues that the U.N. is not big enough for two Chinese seats, even if only temporarily, until China's unification is achieved. But the U.N. was big enough for two Germanys, and is still big enough for the two divided parts of Korea. So much for that argument.

Rhetoric can't change reality. The Republic of China on Taiwan exists. The international community

FULL TEAM, FOR THE U.N.



should not be bullied into playing along with any charade to the contrary. It's high time the international community says "no" to Peking's attempts to block the Republic of China from assuming its rightful role as a responsible, charitable and key member of the U.N. family of nations.

Yes. The 21 million Chinese on Taiwan are ready, willing and able to assume a role in the U.N., to do their share in building a better U.N. and more harmonious world. Their continued exclusion is no longer justified. Reality and reason, not rhetoric, should make the world go round.

So, isn't it time for the U.N. to give the Republic of China on Taiwan a chance to participate in the most august of world bodies?

The Republic of China on Taiwan. We're Ready.

**TODAY'S
TAIWAN**



**REPUBLIC
OF CHINA**

FRANK
CHING



EYE ON ASIA

It is now clear the two governments had begun colluding with one another to deceive Hong Kong even before the Joint Declaration was signed

The Betrayal of Hong Kong

Colonial legislature censures both Britain and China

Earlier this month, the Hong Kong Legislative Council (Legco) unanimously adopted a motion calling on Britain and China to stop violating the Joint Declaration and, in effect, condemning both Britain and China for having betrayed the people of the British colony.

Although the motion was supported by all the major parties in the legislature, fewer than half turned up for the actual vote. The reason? Simply that the motion was not controversial. Virtually everyone in Hong Kong agrees he or she has been betrayed by both London and Beijing, despite the continued insistence of both governments that they act in the interests of the people of Hong Kong.

With the benefit of hindsight, it is now clear that the two governments had begun colluding with one another to deceive the people of Hong Kong even before the 1984 Sino-British Joint Declaration was signed. That September, after the agreement had been initialled, Britain set up an Assessment Office to determine whether it was acceptable to the Hong Kong people. To ensure an affirmative response, British officials gave assurances that Britain would entrench democracy in Hong Kong well before 1997, and that this was understood by the Chinese side.

The Chinese did not contradict these British assertions. Presumably, this is because they, too, wanted the Joint Declaration endorsed by both the Hong Kong public and the British Parliament. Once it sailed through, however, China opposed any attempt by Britain to introduce genuine democracy, such as the direct elections proposed for 1988.

Instead of admitting that the elections could not be held because of China's opposition, the British went through the motions of soliciting public opinion. They commissioned two opinion surveys

— subsequently ridiculed by the secretary-general of the Gallup Organisation as meaningless — which were then used to justify the decision to scrap plans for the 1988 elections. The official British view remains that these elections were not held not because China disapproved of them but because the people of Hong Kong did not want them.

Within Hong Kong itself this led to distinct feelings of betrayal. Today, with relations between Britain and China strained by the Tiananmen Square crackdown and differences over arrangements for the 1994-95 elections, things are no better.

Instead of shielding each other, of course, the British and the Chinese now hurl charges at one another. What has not changed is Hong Kong. Far from benefiting from the dispute, the

people of Hong Kong once again find themselves paying the price.

Take the proposal to set up an independent human rights commission in Hong Kong, introduced by a legislator who happens to be my wife. Publicly, Governor Chris Patten proclaims himself open-minded, ready to consider the proposal before he issues a formal response in June. But he has warned that such a commission may not be helpful because some commissions in other parts of the world are without teeth, a position echoed by officials in London. It is an odd position for a governor to take, not least because whatever the practice elsewhere he is in a position to ensure that one set up in Hong Kong would have teeth. Privately, the British say that they are all for human rights, but that the Chinese would never tolerate the setting up of any such commission. There is little doubt what the governor's decision will be.

The situation, however, has become more complicated because Parliament's foreign affairs committee has now come out in favour of such a commission. The Chinese, ever distrustful, discern in all this a British plot to foist a human rights commission on the future Special Administrative Region. They say that if the British set one up, they will dismantle it come 1997. The upshot is that both Britain and China oppose a Hong Kong initiative, each using the other as the reason for their opposition. And once again Hong Kong finds itself caught in the crossfire.

Indeed, distrust of Britain is leading to ever more extreme positions by the Chinese side. Thus, a Chinese official, Wang Fengchao, has recently repeated China's position that the legislature elected in 1995 will be dismantled in 1997, no matter what Legco ultimately decides about the governor's electoral reform package. Such a statement appears to show contempt not just for Patten and Legco but also for China's National People's Congress (NPC), which issued a decision on April 4, 1990, about the first post-1997 legislature.

According to that decision, "If the composition of the last Hong Kong Legislative Council before the establishment of the Hong Kong Special Administrative Region is in conformity with the relevant provisions of this decision and the Basic Law, those of its members who uphold the Basic Law and pledge allegiance to the Hong Kong Special Administrative Region of the People's Republic of China may, upon confirmation by the Preparatory Committee, become members of the first Legislative Council of the region."

In theory, at least, it is possible that Legco may pass a bill providing for exactly what the Basic Law stipulates. However, because Beijing is having a fight with London, China is saying that regardless of what Legco does, regardless of what the NPC decision says, it will dismantle the legislature in 1997. The Hong Kong people, it seems, just can't win. ■



THOMAS CHENG/AP

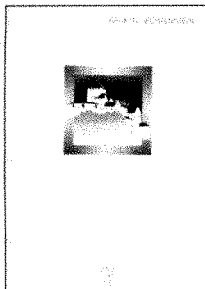
Empty hopes?

CORPORATE ANNUAL REPORTS



BANK IN LIECHTENSTEIN
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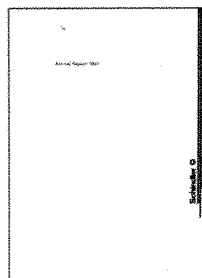


As a universal bank, the Bank in Liechtenstein, founded in 1920, provides a complete range of financial services. Internationally, its main activity is investment counselling and asset management for a discerning private and institutional clientele. Portfolio management is also an important element in the bank's traditional business. The bank maintains a representative office in Hong Kong to service its Far Eastern clients.

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TRANSAMERICA

3



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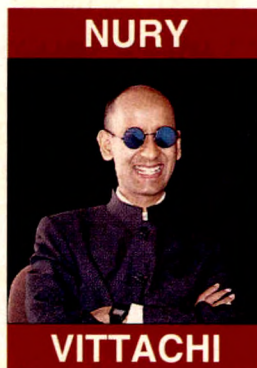
TRAVELLERS' TALES

RACE MEETING: Orion Professionals, a consulting company based in Taipei, is sending letters to Taiwanese businesses, offering two courses: one to teach "expatriates" how to be better bosses, and one to teach Chinese people to improve their ability to think and communicate.

Would-be-applicants to "Communicating With and Managing the Chinese" are warned on the application form: "This half-day seminar is for expatriates only."

Would-be-applicants to "Logical Communication" are told: "This seminar is designed for Chinese staff only. The way people think about communication determines the way they communicate. A logical thinking style will make communication more efficient. The primary objectives of this seminar [sic] are to improve Chinese attitudes towards clear communication and to improve their analytic abilities."

One recipient, Claude Haberer of Taipei, was horrified by this objectionable division of attributes. I wonder what Orion Professionals' next course will be? "How to be Aware of Racial Sensitivities," maybe?



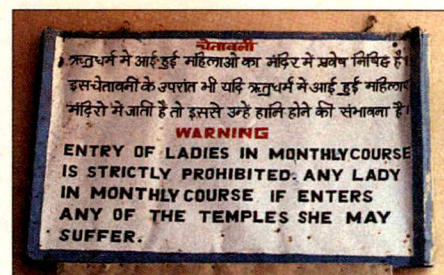
SOLE PROPRIETOR: Australian footballer Tony Gasparetto went shopping for a pair of shoes in Singapore. He found himself in a crowded marketplace, according to the May 3 *Bulletin*, sent in by Ranjan Tirimanne of W. R. Grace, Melbourne.

The soccer player found some racks of

Have a tale to tell? Call (852) 508 4382, fax (852) 503 1530 or write to GPO Box 160, Hong Kong.

shoes, and chose a pair which suited him and seemed to fit. But then he couldn't find a shopkeeper to take his money. Gasparetto, shoes in hand, wandered through the doorway behind the racks, looking for someone to serve him. He found himself in a mosque.

PLAIN JAIN: Dr. Peter Carey of Trinity College, Oxford, saw this sign (below) at the Jain temples in Rajasthan, India. Since the male religious leaders cannot tell when women are menstruating, they have chosen to threaten women with nameless sufferings instead.



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SHYLOCK'S REVENGE: Ever fancy getting your own back on those cruel people who transport squealing pigs in cramped trucks around Asian cities? Now you can. Just buy a ticket on Thai Airways International, and look for this (*below*) on the menu. It was sent in by D. Bromilow of Samut Prakarn, Thailand, who resisted the temptation to taste a butcher.

Tenderloin of Pork Merchant, Vegetables
หมูบดของพ่อค้าเนื้อและผัก

MIA CULPA: In colloquial Vietnamese, MIA as in "MIA Cafe" (TRAVELLERS' TALES, Apr. 28) refers to a popular iced sugarcane drink, I hear from Nguyen Minh of New Jersey and Tran Binh Nam of California. No wonder the Americans have had such a hard time resolving the MIA issue. ("Prime Minister Vo! The Americans are still making a fuss about the 2,000 iced sugarcane drinks they left here 19 years ago.")

CHING CHIMAERA: In a blaze of publicity in Hong Kong recently, Supreme Master Ching Hai, a female spiritual teacher, said that the Vietnamese boat people in the colony would commit mass suicide on

April 29. When the day arrived, she and her followers prayed and sang and then she said: "I don't think they will kill themselves now." She was right, of course.

Two can play at this game. I predict that evil forces will attempt to turn Ching Hai into a frog on the day this magazine comes out. But I hereby ask the gods to turn her back into a 43-year-old woman with a British passport. Alakazam! Can I be a Supreme Master too, now, please?

FULLY ENGAGED: Alfred Tonkiss of Hong Kong read this in the *South China Morning Post* of April 8: "The Vietnamese are held in corrugated iron huts with shared toilets that hold about 100 people each." We're talking BIG toilets.

DIRTY JOKE: "Clean dirty ice-cream" (TRAVELLERS' TALES, Apr. 28) dates back to the 1950s, writes Violeta Laraya of Manila. Home-made ice cream sold by street pedlars was known as "dirty ice-cream" to differentiate it from boring, hygienic factory-made stuff. Today's aficionados hanker for the old-fashioned flavour, so "clean dirty ice-cream" is the hybrid result. In other words, they throw the stuff on a clean floor and then rinse it.

THE WEIGHTING GAME: Premasiri Supermarket advertised a "Wait Reduction Programme" in the *Daily News* of Sri Lanka on April 16, I hear from Faith Ratnayake of Colombo. Does this mean their queues will be shorter?

BODOH-BLOW: Junie Ponsie, a Singaporean living in Virginia, United States, was greatly amused to get a seminar invitation from a Mr. Bodoh, who works as an investment adviser in the area. In Malay, the name translates as "Mr. Silly."

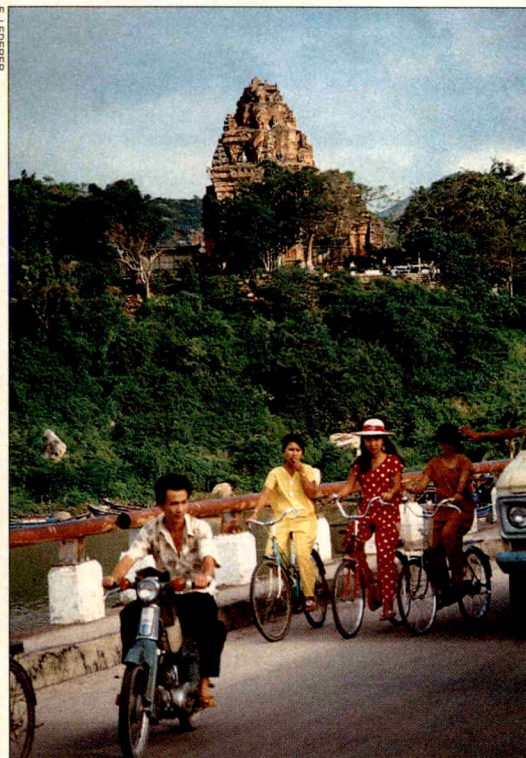
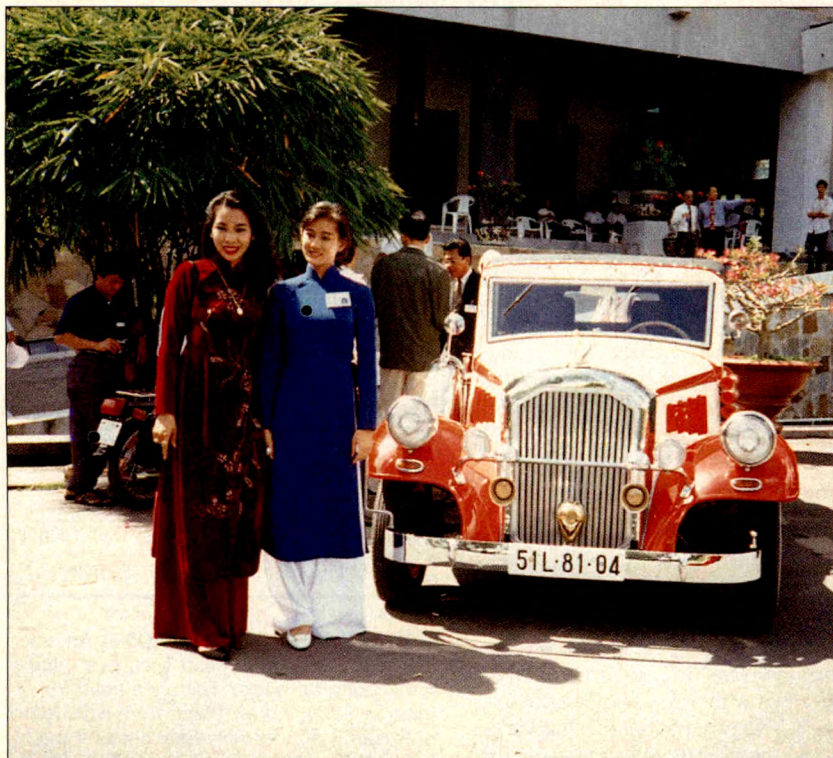
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LIGHTS ON, BUT NOBODY HOME: Anyone know any "Vacant English Teachers" who are looking for a job? There's a need for them in South Korea, I hear from Eric Jome of Pusan. I wonder how they check if they are truly vacant? Is it just a matter of having a blank stare? Or do you have to prove you are empty-headed by some characteristic action, such as walking into the wall?

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Vietnamese hostesses and vintage car at the former presidential palace; right: Cham temple ruins along the former Highway of Death.

WAR AND PEACE

Return to Vietnam

After two decades, a war correspondent finds a country at peace

By Edith Lederer

During the Vietnam War, Highway 1 was the notorious "Highway of Death," the road of Viet Cong ambushes and American bombs that kept your adrenalin soaring at every turn. You risked your life driving even short distances.

Returning to Vietnam last December for the first time in 20 years, I drove north along the pot-holed highway from Saigon, now Ho Chi Minh City, towards the port of Da Nang, marvelling at how the road had been transformed — into a highway of life.

Laughing children were walking to school. Young men held ploughs instead of rifles. And old men and women sat at roadside cafes, chatting over cups of tea.

It was so strange to be enjoying the scenery along Highway 1, rather than peering out the window, looking for telltale signs of guerilla activity such as the crack of a rifle, the thud of artillery or a glimpse of armed units on the move. I kept looking for the monuments of war, hauntingly

etched in my memory — but they were all gone.

For instance, the huge United States military installation in Da Nang, where the first Marines landed in 1965, has disappeared as the city scrambles to become a major commercial centre. Similarly, the big U.S. base at Bien Hoa is now an overgrown rubble heap. And The Brinks, the last of the U.S. military barracks in then-Saigon, is about to be demolished.

To be sure, there are memorials to the soldiers who fell fighting for the former Viet Cong and North Vietnamese. But there are none to the South Vietnamese. In Ho Chi Minh City, the few cemeteries for South Vietnamese soldiers I remembered have been razed. In their place, there are now parks and light industrial sites.

The old Saigon haunts of foreign war correspondents were also unrecognisable: the terrace of the Continental Hotel, where anyone could see everyone and buy anything, is an enclosed pizza parlour. The Hotel Royale, once a favourite journalists' hang-out, is an Italian ice-cream parlour.

Even my apartment building on Nguyen Hue is a hole in the ground, about to become a hotel or restaurant or fancy shop.

After four decades of wars and hundreds of thousands of casualties, Vietnam is trying to turn its back on its painful past. Today's buzz words are "business" and "money" as the communist-governed country rushes to join its capitalist neighbours and become part of Asia's economic boom.

Much of what the visitor to Vietnam sees today is actually a return to the Vietnam of old. During the war, Saigon was a sea of motorbikes, but the Vietnamese switched to bicycles when the war ended and petrol became very expensive. Now motorbikes are back in again, rekindling the old fume-filled atmosphere.

The same is true of the old South Vietnamese presidential palace, whose gates were smashed by North Vietnamese tanks when Saigon fell in 1975. Once a symbol of capitalist power, it has come to symbolise capitalism again. Parked in the drive and lobby were half a dozen antique and new

Mercedes-Benzes. It seems the palace has become an exhibition centre, aimed at Western big business. Even little businesses are flourishing. For US\$1, it is possible to have a picture taken sitting behind the desk where former South Vietnamese President Nguyen Van Thieu once welcomed foreign guests.

But for all the change in Vietnam today, nothing can fully erase those pictures of war and suffering that from time to time came flooding back.

Every day, on the way to the Associated Press office in the centre of then-Saigon, I used to give money to the same two beggars on the street. They weren't there any more. In their place were others, including a man without legs who lay on a board with wheels, propelling himself down the street with one hand while holding a begging cup in the other. Perhaps he had been a soldier. Many retired soldiers in the north and south complained that they received no pensions or disability benefits and were too old or infirm to jump on the economic bandwagon.

There were also some painful reminders of the vengeance that civil wars inevitably visit on the vanquished. In Ho Chi Minh City, I found several old friends who had worked for Americans. Most had been through re-education camps and were unable to leave the country or get jobs. Many were barely surviving as casual labourers, but they remained terribly proud. It wasn't until I said goodbye after one night out that a friend whispered to me that it was the first time in years he had gone to a restaurant. He confessed he had almost forgotten the taste of ice cream.

Everywhere, I kept waiting for some kind of outburst when the Vietnamese learned that they were in the presence of an American. Surely, I had thought, there must be pent-up hatred because of the devastation and heavy losses incurred during the war. But astoundingly, there was no anti-Americanism. In fact, America is "in" again, as evidenced by the phenomenon that English has replaced French as Vietnam's second language. It seemed that every seven-year-old spoke at least some English, including the young girl in Ho Chi Minh City who did a great sales pitch to entice American customers to buy her models of U.S. fighter planes made from beer and Coca-Cola cans.

In fact, English has become so prevalent that at a cafe on the road between the beautiful beach resort of Nha Trang and Da Nang, the son of the cafe's owner produced his Oxford English exercise book and asked for help with the conditional tense. Another young man helping to clear trees after

a typhoon said he and his friends were devotees of the Voice of America's special English programmes.

Even in war-ravaged Cambodia, where my trip with several colleagues who also covered the war for the Associated Press began, there was no anti-Americanism.

When I flew into Phnom Penh for the first time in 1973, the city was on edge, overcrowded with about 2 million refugees. Rice supplies were running out. Khmer Rouge forces were attacking outside the city. And every night, U.S. B52s bombed suspected Khmer Rouge sanctuaries just across the Tonle Sap and Mekong rivers that bound the city.

When I returned recently, it was a sultry, lazy day; the only hustle was by a group of young men vying to carry my luggage — for U.S. dollars, of course.

Phnom Penh was definitely seedier than it had been in 1973. But it was also much happier. Even though Cambodians are still anxious about the future, warm smiles had replaced the nervous glances prevalent

during the war.

The country's economy needs a jumpstart, however. When most of United Nations' 22,000 high-spending troops left at the end of September following democratic elections last May, it hurt local businesses. New hotels and restaurants that had earlier been packed with soldiers now struggle to find customers. A few popular night spots like the Gecko Club have even closed.

But Phnom Penh's central market was still crowded, bursting with everything from food and electronic goods to rubies and emeralds. The Tonle Sap was also busy, filled with rowers from different towns, practising in long boats for a big race. And Japanese engineers were putting the final touches on a bridge across the river that had been destroyed during the war.

Like Vietnam, however, there were scores of beggars and poignant reminders of vast disparities in lifestyle. A beautifully dressed bride and groom posed for pictures at the Cambodiana, the city's most expensive hotel, while a Cambodian girl in rags, clutching a naked baby on her hip, watched, wide-eyed in disbelief.

At the old journalists' hotel, which I knew as the Hotel Phnom and my predecessors had called the Hotel Royale, I stood at the pool remembering my first night in Phnom Penh.

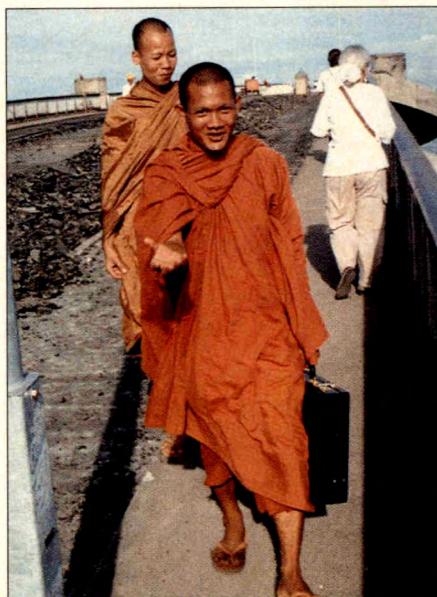
I had gone to sleep about midnight that day and shot out of bed an hour later, thinking a bomb had hit the hotel. But it was only the B52s making their nightly runs across the river, something I learned when I wandered out to the pool and found all my colleagues drinking and chatting. Nobody, I was told, went to sleep until about 5 a.m. when the bombers left.

Throughout my trip, every time I saw signs to famous towns that were once battlefields, I kept thinking of all the soldiers and all my colleagues who died during the war. Were their deaths in vain, or had they helped change history? Certainly, the Vietnam War injected a note of caution about future U.S. military entanglements.

I kept thinking about all the momentous events they never dreamed about — and, of course, would never know. Who would have believed 20 years ago that the Berlin Wall would be torn down, that the Cold War would be over, that the Middle East would be moving towards peace or that there would be less than half a dozen communist countries in the world in 1994?

How I wish they could have seen the new world and peace in Vietnam. ■

Edith Lederer, a former Indochina correspondent, is with the Associated Press in London.



Buddhist monks on the new bridge over Tonle Sap River. Below: war cemetery for North Vietnamese soldiers.



Great Dictator, Short Fuse

Deng Xiaoping and The Making of Modern China by Richard Evans. Hamish Hamilton, London. £20.

Two tigers cannot co-exist on the same mountain, an old Chinese proverb says. In China today, however, two emperors are basking in the limelight simultaneously. One is the deceased Chinese leader Mao Zedong, whose personality cult is making a strong comeback on the occasion of his 100th birthday. Another is Deng Xiaoping, whose collected works have grown in length to rival those of Mao's.

Outside China, Mao and Deng continue to be favourite subjects for writers anxious to determine whether these men are villains or heroes. Sir Richard Evans, British ambassador to China from 1984-88, chose to write about Deng because he is one of the two political leaders in recent history "in the premier league." The other is Charles de Gaulle. Mao, by contrast, did "most of the good before 1950 and not after," Evans said in a recent speech.

Writing about either Deng or Mao is an unenviable task, because of Beijing's tight control on information and the two leaders' controversial achievements. With Deng, the challenge is arguably greater because he is still alive and because less is known about him. The world knows more about Mao thanks to memoirs by his secretaries, doctors and mistresses; with Deng, the secrets will be out only when the old man is no longer around to take revenge.

Evans' 339-page book promised to fill in pieces missing from what we know of Deng's life. The author has impeccable credentials as a career diplomat and sinologist, and spends four entire pages naming all the contacts he tapped for the book. Despite these sources, however, Evans has no extraordinary tale to tell. His narrative differs little from standard histories of communist China, with only occasional new insights.

Deng is the son of a minor Sichuan landlord and his third wife. Educated at "an old-fashioned private pre-school," Deng got his first taste of politics when he participated, at the age of 15, in a 1919 student boycott of Japanese goods. A year later, his father sent him to France to join a work-and-study programme. It was dur-

ing those tough years abroad that Deng became acquainted with Marxism and established a life-long friendship with Zhou Enlai. Deng's early career is less spectacular than that of Mao or Zhou; he engaged in urban underground activities before making his mark on the battlefield.

Evans notes that like many small men, Deng was quick in his movements and outstandingly energetic. He was physically tough and never fell seriously ill. He was

choleric in temperament, although he learned to keep his temper under control. "Deng had a fine natural intelligence . . . and was a good political and military analyst. He relished facts and figures, and made himself something of an expert on subjects like trade and taxation," Evans writes. However, the book does not explain how these traits helped Deng survive successive political purges.

Nor is there sufficient treatment of Deng's role in the early years of the party, and pages go by with no reference to Deng at all. In fact, Mao receives so much space that the book could be mistaken to be about him. In the chapter on the Hundred Flowers Movement, for example, only five of the 25 pages mention Deng, although he was a major player in this purge against intellectuals. This involvement is one reason why Deng refuses to deal with rightists seeking political rehabilitation.

Evans' treatment of Deng's thoughts on Hong Kong is equally disappointing, offering little more than general observations. Although Evans was an insider to the process of determining Hong Kong's future after 1997, he says little about Deng's views on sovereignty and imperialism, both of which are decisive factors in the Hong Kong question.

Evans may have exercised too much diplomatic caution in putting his thoughts on paper for fear of upsetting Beijing. This neutral, bland approach is best illustrated in his concluding comments.

Deng's achievements, he writes, set China on a path of rapid economic development and brought the country into the mainstream of international life. "Most [Chinese] will see blemishes on [Deng's] record — not the least the crushing of the democracy movement in 1989. But the great majority will see much more white than black if only for having lifted them to

a standard of life unknown, and undreamed of, by their parents."

Evans' book pales by comparison with a recent book on Mao and Deng by Harrison Salisbury, the late *New York Times* correspondent. In *The New Emperors*, Salisbury produced an irresistible tale full of quotes and insights, based on numerous interviews and extensive research. Evans' study, in contrast, appears to have been written in haste. ■ Louise do Rosario

Louise do Rosario is the REVIEW's Hong Kong correspondent.

Brother Zhou

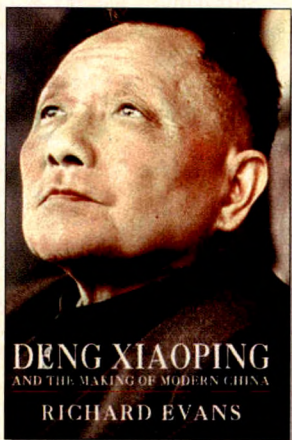
Eldest Son: Zhou Enlai and the Making of Modern China, 1898-1976 by Han Suyin. Hill and Wang, New York. US\$27.50.

More an arranged marriage than a love match, the relationship between Zhou Enlai and Mao Zedong was nonetheless one of the most enduring and spectacular political partnerships in history. Zhou's cosmopolitan charm and cool wit were a perfect foil to Mao's peasant crustiness and heated eruptions. Zhou was the swami of subterfuge, Mao the maestro of the mass movement. Together, they made beautiful revolution.

Nearly 20 years after their deaths (both "met Marx" in 1976), these two personalities still have the power to fascinate. But while the collective gaze renders Chairman Mao ever larger than life, more colourful and transparent — take the BBC's recent revelations on his sex life for example — Zhou retains a stubbornly opaque quality. Han Suyin's biographical study *Eldest Son* is just the latest in a number of attempts inside and outside of China to unravel the Zhou enigma.

Beginning with the path-breaking work of Hsu Kai-yu in 1968, English-language works on Zhou have included anecdotal histories, translations of his poetry and academic studies, such as Simon Leys' essay *The Path of an Empty Boat: Zhou Enlai and Percy Jucheng Fang's* readable if hagiographic *Zhou Enlai — A Profile*, published by Beijing's Foreign Languages Press in 1986.

The scion of a bourgeois family, Zhou threw himself wholeheartedly into China's revolution. Time and again, his courage, intelligence and leadership abilities were tested and came up full marks. He had an extremely ruthless side: he once ordered the execution of a traitor's entire family — 17 people in all; only one young boy was spared. But Zhou is more widely remembered as the revolution's consummate diplomat, wooing the support of non-communists in China, promoting Third-World



unity and "peaceful co-existence" abroad and orchestrating rapprochement with the United States. During the Cultural Revolution, he worked hard to protect old comrades and, when possible, to push for a softer line towards intellectuals, while safeguarding as much of China's cultural heritage as he could.

Zhou's wit is legendary. Khrushchev once exploded at Zhou and said that the Chinese premier was but a "bourgeois" by birth, whereas Khrushchev had come from the working class. Zhou's reply: "True, comrade, but we have something in common. Both of us are traitors to our class." He also could be truly heroic, such as the time when he insisted on giving up his parachute to a young girl when the airplane they were on seemed certain to crash (it didn't).

Yet he remains an enigma. How could a man of noble character consent to so many ignoble acts and policies? To what extent was he aware that his attempts to soften the blows dealt out by Mao in the Cultural Revolution might actually have helped prolong the terror? What was the ratio of selflessness to self-interest? And — though this isn't addressed in this book —



Zhou (left), Mao and the Little Red Book.

why has Zhou been adapted as an icon by China's gay community?

Han Suyin, an unabashed fan of Zhou, addresses the darker side of his character and actions, yet fails to illuminate it: "... he was many-faced, but consistent unto himself, like a rainbow which displays a many-coloured arc by refracting colourless light." She denigrates Henry Kissinger's observation of Zhou's "moral ambivalence" as "inapposite, indicating Kissinger's ignorance of Taoism, that fundamental duality of spirit which made Zhou accept that good and evil are inseparable Siamese twins." But *yin* plus *yang*

does not equal hypocrisy. No matter how you toss the I Ching, Zhou Enlai comes out a morally-challenged individual.

Despite Han's personal contacts with Zhou, interviews with his widow and extensive research, *Eldest Son* adds little to our understanding of Zhou's layered character. Her chaotic romanisation of Chinese names and words, insistence on translating names (He Long becomes "Winsome Dragon," Zhu De "Scarlet Virtue"), offhand sourcing of quotes

and occasional mangling of facts will not endear her to serious readers.

As a biographer, Han's most serious flaw is her inability to let facts speak for themselves, her need to ram her judgments down our throats. "The professors are needed to teach our worker-peasant-soldier youth," said Zhou virtuously," she writes. As a reader, I choke on the word "virtuously." Han claims she is not interested in hagiography ("I have tried to find faults..."), but she still writes like a propagandist in historian's garb. ■ Linda Jaivin

Linda Jaivin is a writer based in Sydney.

Basking in Sun's Shadow

Woman in World History:
Soong Ching Ling (Mme. Sun Yatsen) by Israel Epstein. New World Press, Beijing. Rmb 25. HK\$168.

A full-length biography of Soong Ching Ling is timely, but not just because it celebrates the centenary of her birth in 1893. For too long we have had to make do with accounts such as Emily Hahn's *The Soong Sisters* (1942) and Jung Chang's sketchy *Mme. Sun Yat-sen* (1986).

How accessible Israel Epstein's 690-page account will be is debatable. Unattractively produced in Beijing with a pedestrian title, it may well fail to travel. That would be a pity.

Epstein knows his subject well. He worked with Soong from 1938, when they were both in temporary exile in Hong Kong. He kept vigil at her deathbed. She asked him as long ago as 1975, six years before her death, to write her biography.

Early on, Epstein suggests that "this biography is about Soong Ching Ling, not just as the bride-to-be, wife or widow of the great Sun Yatsen." But the first 139 pages favour Sun's story. It would have made more sense to start with the May



30 incident of 1925, just after his death, when Soong issued her first political pronouncement, and emerged as a full-fledged revolutionary.

Soong devoted herself to Sun Yatsen's revolution to great effect and at great cost. She never hesitated, for example, to speak out

against her brother-in-law, Chiang Kai-shek, whom she despised without reserve. But what is particularly striking is her concern for China's women.

Their needs were her special niche from her marriage in 1915 to the day she died. Without her constant agitation, work and example, the advancement of women in China would not have been so high on the agenda after 1949.

One would have liked, however, to have more individuals drawn out from the vast network of Soong's relationships, particularly the individuals she met through her work with welfare and human rights agencies. More personal and anecdotal material would also have been welcome. Writing the first major account of a Chinese icon is no easy task. The plinth is there waiting to receive the statue. Soong emerges just a little too perfect.

One telling anecdote captures the essence of the woman. When she was old and infirm, her gardener would put out new potted plants to tempt her to exercise. "Sometimes she would ask, 'Can I pick this flower?' and when he once answered, 'Of course, they're all yours,' she said, 'But it's your labour'."

Soong's reputation is considered tarnished in some quarters by a belief that she allowed herself to be used by the communist party. Epstein provides evidence to the contrary.

In 1957, she asked to join the party. Liu Shaoqi and Zhou Enlai told her it was better for her not to join formally, but that she would henceforth be consulted about important party matters. Zhou had said earlier, "There are a million party members in China but only one Soong Ching Ling."

On her deathbed she was awarded party membership and honorary chairmanship of the People's Republic. Sterling Seagrave writes protectively in *The Soong Dynasty*: "It is hard to say if she was aware of the title or consented to being given the party's last rites." Epstein's account leaves no doubt. "Thank you comrades," she said to those bringing her the news. And to the same person a few days later, "I'm grateful for all you've done for me." ■ Susanna Hoe

Susanna Hoe is a writer based in Hong Kong.



PRASHANT PANJABHINDA TODAY

Indian entrepreneur Modi's formidable reputation has earned him many big-name business partners from abroad.

ENTERTAINMENT

Family Man

B. K. Modi may be a bit eccentric, but he is emerging as the star of one of India's oldest industrial clans. In many ways, he personifies the country's changing business world.

By Hamish McDonald in New Delhi

The dinner party is in one of Delhi's finest gardens, under trees as enormous as they are ancient. Tables are set on the lawns, where young chefs and bearers fuss over a lavish buffet. On the top terrace, a pretty Japanese soprano in a silk sari warbles Japanese and Indian popular songs. The guests, mostly Japanese in dark suits and prim frocks, applaud politely.

Bhupendra Kumar Modi, a heavy, stooping figure in *kurta* and *dhoti*, hovers round to supervise. As a young Indian woman translates his welcoming speech into Japanese, his eyes dart around the audience to pick up the response.

India's most eclectic businessman is doing what he loves best: bringing cultures together. Many of his guests are from Japan's biggest and wealthiest Buddhist

sects; others are from elsewhere in East Asia. The day after this dinner, Modi packs them into a chartered train, along with assorted Indian scholars and swamis, for a 650-kilometre trip to Sarnath, Uttar Pradesh, where Gautama Buddha began to teach. For three days, they discuss whether Buddhism was a completely new religion, or — a notion dear to Modi — Buddha was a reformist avatar of the Hindu god Vishnu.

This particular exercise may be about a philosophical passion, but it could also have a business spin-off. Modi, thinking about a chain of tourist facilities linking Sarnath and other Buddhist pilgrimage sites in India, is looking out for potential business partners from East Asia.

His eccentricities help explain why B. K. Modi — scion of a business family that has a mixed reputation in India — has attracted such a glittering array of foreign

partners: Xerox, Olivetti, Alcatel, Australian telecoms carrier Telstra, German tyre-maker Continental, U.S. glass-maker Guardian, Lufthansa, Walt Disney. Modi has a gift for convincing big foreign names that he's the Indian to trust. "He makes a very good personal relationship," says a friend. "He doesn't start from a business relationship. It's always more personal."

His idiosyncrasy, though, can also be a concern to foreign partners. "B. K. has so many ideas," says a foreign collaborator. "Too many! I find it something disturbing that he's talking about this or that. You've got to pull him back to what you're there to talk about. His mind is always racing ahead."

However flighty, B. K. Modi is a fascinating character, and one who in many ways embodies the transformations under way in Indian business. A dashing entrepreneur emerging as the star of a large, old and frequently warring business clan, he's trying to build a futuristic service-sector group on an old-fashioned manufacturing base. While optimistic about India's economic future, he is constantly pushing for

continued privatisation of service industries, reforms upon which his attempts to diversify are critically dependent.

"We have asked the government to change company and income-tax laws to help us, so that corporations are able to grow fast," he says. "After all, if India is to grow, it has to be grown by Indians. No country in the world has been able to develop just by foreign investment. Unless Indian laws are pro-Indians, [economic reform] may fail."

On the other hand, his reputation includes some considerable blotches, not least his family's image as a reluctant debt-payer. Indeed, the Modis themselves are a study in the differences between Indian and other corporate cultures. Not untypically in India, the family presents outsiders with a bewildering corporate structure, a set of companies operating under one name but which work together only occasionally. When they want to project an image of size, it's the Modi group. When they want to dilute responsibility — say, for one company's debt — they're all separate business houses. It's a little like the Hindu pantheon: you can worship a particular god, or all of them at once.

The Modi story begins early this century, when B. K.'s great-grandfather, from a caste of shopkeepers and traders, moved to the Delhi area from the desert state of Rajasthan. Modi Industries started in 1933, producing everything from cooking oil, lanterns and soap to steel products and sugar. Townships called Modinagar and Modipuram grew up around its plants.

In the 1970s, the Modi empire began to take shape as two separate entities, one comprising the five sons (B. K. is the fourth) of company leader G. M. Modi, and the other the three sons of his brother, K. N. The former's death in 1976 set off a power struggle between the two groups. In 1989, the family's creditors — primarily state-owned banks and insurers — forced a formal division of Modi assets that left G. M.'s sons with cash cow Modi Rubber, then India's leading tyre maker, and K. N.'s with other manufacturing firms.

Because cross-shareholdings were never entirely severed, disputes still break out over things like who picks up rights issues renounced by the other side, and at what price. The rivalries sometimes extend to new fields. In bidding for cellular telephone networks, for example, B. K. tied up with Telstra, and cousin Y. K. Modi with New York's Nynex.

Modi Rubber, run by B. K. and brother V. K., is key to the clan's success. Its cash

flow helps launch B. K.'s hi-tech joint ventures. Like other automobile-sector companies, Modi Rubber suffered from the demand recession of 1991-92. Its profits have since improved, but the company now requires large investments as it sets out to chase rivals like the Singhanian group's J. K. Tyres into radials, which Modi believes will gradually supplant cross-plys as Indian roads improve. A partnership with Germany's Continental gives him access to radial technology. The financing will come from a US\$125 million Euro-issue.

In addition to a successful tyre maker, however, the five brothers also ended up with some lemons. The original mainstay, Modi Industries, is now what Indians call a "sick" company. So are Modi Carpets and Modi Spinning & Weaving. In 1992, creditors led by government-owned Punjab National Bank began pressuring the five brothers to accept liability for about Rs 1.5 billion (US\$48 million) in non-performing loans to these companies.

The creditors circulated a notice to lending institutions declaring the Modis "wilful defaulters" and seeking a moratorium on further credit. When Finance Minister Manmohan Singh announced last

it built with Mirreles Blackstone of Britain's BTR group. B. K. Modi's potential liability to the sick companies is understood to be about Rs 70 million, from personal guarantees.

Clients and business analysts say the Modis are notoriously slow payers, apt to push a deal beyond the limit. "They are real penny-pinchers," says one client. When B. K. set up a joint-venture art auction house with Sotheby's in 1992 — a none-too-successful trial because of bureaucratic obstructions — his part of the deal was to provide office space and other logistical back-up. Later, Sotheby's officials were stunned to get a rent bill from Modi (they sent it back).

Some foreigners ask if local partners like Modi are so crucial any more, now that reforms are bringing the "licence raj" to an end and multinationals operate with increasing autonomy. For the time being, the answer is probably Yes in many service sectors where entry is still limited by government licence or contract, and political connections often outweigh other factors.

That's not to say that even a well-placed local partner guarantees success. Telstra did well to choose Modi for the cellular-

telephone bids, winning one of two slots in the prime New Delhi region (although court challenges are pending). With partner Alcatel, however, Modi was slow to obtain telephone-exchange contracts for which the French firm, in expectation of orders, had taken a huge gamble in setting up a plant outside Delhi. In India's first big round of digital-exchange orders, Alcatel lost out to Ericsson, Fujitsu and Siemens.

Modi admits the venture, in which he invested the first Rs 70 million, was a gamble. "We are entrepreneurs," he says. "I'm not just a manager. I take risks all the time. I lose also sometimes. But when you gain, the returns are manifold. When

you lose it is one-fold." Still, he says, "the pay-off has already come in: Rs 1.5 billion worth of orders. Others will take two years to come in. Like marriage, commitment is what's important."

Modi says foreigners still need good Indian partners, for reasons other than winning contracts. Most foreign entries are service businesses, "which means management," he says. "I think an Indian can manage better than if a foreigner tries. They are not aware of the local culture, they are sometimes not aware of the local service requirements, the commitment that a joint-venture partner brings. For Xerox, the Indian market is a very small thing. For one, it's the main market. Plus I have a direct linkage with the Xerox president,

 Empire of the Son B. K. Modi's main companies					
Company	% Shareholding			Rs millions *	
	Modi family	Foreign partner	Banks & public	Sales	Net profit (loss)
Modi Rubber	25-30	nil	70-75	6,624	9.4
Bombay Tyres	35	nil	65	2,177	(58.0)
Modi Xerox	40	40	20	2,075	117.4
Modi Olivetti	40	40	20	580	1.0
Alcatel Modi	49	51	nil	n.a.	n.a.
Indian Telecom	50	50	nil	n.a.	n.a.

☆ 1992-93; except for Modi Olivetti, 1993-94.

Source: Company reports

year that tribunals would be set up to recover bank loans from defaulters, it was widely assumed the Modis would be among the first targets. Some kind of accommodation has been made, although winding up the sick companies is likely to be long and messy.

"Things got sorted out," says V. K. Modi. "The group approach never came. The group concept is there, but basically each Modi has his own group, with the exception of the tyre business."

Lending has continued, and so has Modi's expansion. Indian banks put up Rs 3 billion for a float-glass plant Modi Rubber built with America's Guardian at Ankleshwar, Gujarat state, and provided some of the funds for a diesel-engine plant



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Foreign businessmen, however, say national distinctions are losing importance, now that multinationals are operating increasingly under their own labels and dispensing with the hyphenated brandnames India once required.

"The [foreign] joint-venture partner calls the shots," says a multinational representative who knows Modi well. "It's all part of a global strategy instead of a one-country strategy. You can't afford anything else any more. The corporate message is the same in every country. Someone like Modi might be chairman of the joint venture, but the chief executive at the head office will always check with his own man in the country."

Modi himself acknowledges this when stressing that joint ventures make sense only if the products they make in India are of export quality. "Basically we are saying we are a group that works in a global framework, and we would like to be recognised as a group which takes care of our customers," he said. "Most big companies have the same objectives. For example, the total quality-management concept and ISO 9000 standards. We are becoming a world-class company which follows world-class norms."

Meanwhile, B. K. is pushing into services along four broad sectors:

► In voice and data, B. K. Modi has ventures with Alcatel, Telstra, Olivetti and Xerox. "We think we can cover virtually anything in telecommunications and information technology," he says. "We're already the largest producer of fax machines in the country. We're getting new systems from Olivetti for audio-visual, everything . . . so we're linking these four companies in various ways to virtually cover the whole field."

► In energy, Modi has tied up with Japan's Marubeni for a power-generation project in Orissa state, and with Electricité de France (EDF) for distribution. Modi and EDF are among the contenders (with India's R. P. Goenka and Reliance groups) for the privatisation of New Delhi's power distribution. Again, he thinks quality will count. "The cost is not what people are worried about, especially in Delhi," he says. "They want quality — that is, a reliable supply of power. They want a payment system that is without hassles."

► In transport and tourism, Modi's main venture is the domestic airline Modiluft (run by B. K.'s brother S. K.), using aircraft and technical back-up from Lufthansa. Like all India's new private operators, it runs under constraints imposed by civil-aviation authorities, who control access to terminals, pilot recruitment and, until recently, advertising. Modiluft operates older-model Boeing 737s, which need a lot more servicing

than the new Airbuses used by state carrier Indian Airlines or the new-model 737s by rival private carrier Jet Airways. Moreover, the Buddhist-circuit tourist chain is still a concept that might depend on privatisation of government hotels.

► Modi's fourth targeted service area is finance. He already has a leasing company, and plans to take two investment companies public, initially holding Modi shares but later moving into other investments. Modi says he is talking to a British insurance company about an Indian venture, following the government's decision to allow private competition in this sector.

Modi will need some financing himself to expand and diversify as he would like. Like many Indian entrepreneurs, however, he has emerged from the old economic order with low equity in his own businesses. Including cross-holdings, the entire Modi



Buddhist temple: business spin-off?

clan owns less than 30% of Modi Rubber, for instance. Modi wants both to widen his equity base and to increase his own share of it, in effect to buy a bigger share of a bigger cake.

That will take money, and greater freedom to use Modi's own assets. That's why he helped found the "Bombay Club" of businessmen last year to press for tax cuts and the right to increase their equity stakes. They have already had some success: Finance Minister Singh's latest budget lowers the capital-gains tax to 30% from 40%.

"My plans will need investments of Rs 30 billion-40 billion," Modi says. "If I sell all my property maybe I'm worth more than that, but on the books I'm not . . . I don't need any money from the government. I just want to unlock my own." ■

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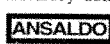
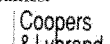
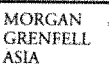
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Loan Words

ADB members disagree over the bank's mission

By Shada Islam in Nice

Asian Development Bank (ADB) President Mitsuo Sato doesn't believe in half measures. The 61-year-old Sato, who succeeded Kimimasa Tarumizu in November, plans a streamlined, restructured, user-friendly organisation. But are the bank's Asian members ready for a new ADB?

Apparently not. As evident at an unusually fractious annual meeting in Nice in early May, Asia's developing countries are finding it hard to accept the ADB's personality switch. They are especially concerned about the "social linkage" they had to accept to convince shareholders to double the bank's capital, to almost US\$48 billion. Social linkage refers to a new lending strategy — forced through by the United States (which along with Japan is the bank's largest shareholder) — under which at least 40% of new loans must go to health, education and environmental projects.

The U.S. says social spending will have an economic payoff. "A healthier, better-educated society is more productive," U.S. Deputy Treasury Secretary Roger Altman told the meeting. But Asians think they smell the whiff of cultural imperialism, and they fear the new approach will hinder their plans to develop infrastructure, especially in energy, telecommunications and transport. Sato has already secured the 75% support needed for the increase, though members have until May 22 to vote. Some expect China to abstain, in protest.

"Rigid linkage between projects and solving of certain social problems is neither helpful in supporting . . . economic growth nor in promoting . . . social progress," warned Zhou Zhengqing, executive deputy director of the People's Bank of China.

While developing countries don't like being bullied by Washington, they welcome the capital boost, the bank's first in 10 years. Though the period covered by the increase was left deliberately vague, the fresh funds at least ensure the bank won't run out of money in the immediate future, something many had recently feared. One thing Sato made clear, however: the bank will probably slow lending growth from the 3.5% posted in 1993, when it approved US\$5.3 billion in financing for some 78 projects. Sato is telling ADB members to expect a period of "consolidation" as he embarks on his daunting reforms.

First, he said, there will be a "spring cleaning" of projects that are idle or slow-

moving, and the bank will abandon its much-criticised "approval culture," which is fixated on meeting programmed lending targets. Bank staff will be reorganised for a "skill mix" that focuses on project quality and implementation.

Another priority: defusing the bitter ideological debates between rich donors and poor recipients. Bank officials say that the rift — recently exacerbated by Western demands that developing nations observe certain labour standards — is bridgeable, but that it will take time. Many Asians bristle over what they see as protectionist efforts to curtail their economic growth under the guise of human-rights concerns.



Mar'ie Muhammad: Asian priorities.

America's tough-talking Altman did little to inspire cooperation, however, when he lectured the Nice delegates on the importance of "good governance," asserting it "cannot be coincidental that most of the world's rich nations are democratic while most of the poor countries are not." Washington's ADB executive director, Linda Tsao Yang, was more conciliatory, even optimistic. "When the heat of the debate dies down, developing countries will welcome the policy changes," she said.

Senior ADB officials promise the bank will be "flexible" in implementing the new strategy, putting less emphasis on vague ideals of "good governance" than on improved public-sector management, civil-service reform and earmarked funding for social issues.

Even Asians who applaud the shift in direction resent America's heavy-handed approach. "We wish the exercise had been conducted in a more subtle manner, avoid-

ing this division among members," said Bangladesh Finance Minister Saifur Rahman. Others are disappointed at Japan's failure to assert Asian priorities more vigorously. Asia's sovereign nations — a large and diverse group — should not be subject to an "all-embracing set of policies," said Indonesian Finance Minister Mar'ie Muhammad.

Not all the rancour is over ideology. India insists that loans from the ADB's ordinary capital resources, with their 6.5% interest rate, are too costly for projects which do not bring an immediate return. "The terms of lending are far too onerous for sustaining projects in social sectors where the generation of revenues cannot meet consequential repayment obligations," said N. K. Singh, India's representative to the ADB board of governors.

China and India are demanding access to the Asian Development Fund (ADF), the bank's soft-finance facility. Both countries are currently excluded, on grounds that their sheer size would exhaust the fund's resources. France backs the two Asian giants, but other shareholders are ambivalent. "This is not the time to talk about including China and India in the ADF," said Britain's development minister, Lynda Chalker. "But they are not out for all time."

The issue is expected to dominate coming negotiations on replenishing the fund, last topped up in 1992 with US\$4.2 billion. Now it needs another financial shot in the arm. Top beneficiaries of ADF grants include Pakistan, Bangladesh, Nepal and Sri Lanka, but ADB newcomers like Vietnam and Mongolia are also competing.

The bank's relationship with its commercial counterparts is another contentious subject. Sato says that the bank will not compete with or duplicate the operations of commercial banks. "We define ourselves as a kind of catalyst" for attracting investment to projects that may not incite private interest at first glance, Sato insists.

Asian beneficiaries want the ADB to play a key role in funding the region's huge infrastructure needs, which the bank projects at US\$1 trillion over the next six years, US\$350 billion in the power sector alone. Like it or not, said ADB Vice-President Gunther Shulz, most of that money will have to come from the private sector. The bank, he says, will help by appraising projects and "taking small stakes to provide a sense of security for other investors. It will be an umbrella function."

Altman insisted Asia will attract private capital so long as it continues to liberalise its financial markets. Indeed, with China and India leading the way, competition for private capital dominated the backstage proceedings in Nice. Even French Premier Edouard Balladur joined in, making a pitch for French companies interested in selling to Asia. And not a critical word about labour standards.

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1.00pm	Trading Day (Continued)
5.00pm	Asian Market Digest
7.00pm	The Asian Wall Street Journal On Air
7.30pm	Money Talks
8.00pm	Far Eastern Economic Review
8.30pm	Asian Market Digest (Continued)
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BUSINESS

ECONOMIC MONITOR: JAPAN

Maybe This Time . . .

Is Tokyo witnessing another false dawn, or light at the end of the tunnel? After a dismal performance in the last quarter of 1993, including a 0.6% quarter-to-quarter contraction in real GDP, Japan's economy began to show distinct signs of life during the first three months of 1994. But economists, who were misled by a similar upturn in early 1993, are reluctant to admit that the worst recession since World War II may really be nearing its end.

Improvements in industrial production in January and March (coupled with a marginal fall in February) could just mean that companies were desperate to get better figures onto their books before the 1993 fiscal year ended on March 31, says Bunpei Nishizaki, a senior official at the Economic Planning Agency's (EPA) domestic-research bureau. James Vestal, an economic analyst for Barclays de Zoete Wedd (BZW), agrees. "The green shoots in the first quarter of 1994 may not bud further," he warns.

The recent sharp upswing in the value of the yen — to ¥102 to US\$1 from ¥113 between January and May — could be particularly bad news for the economy. "If the yen goes on rising during the next couple of months, the profit outlook for the manufacturing sector will worsen and there will be employment adjustments, which in turn could affect consumption," suggests an EPA official.

The yen's strength reflects the stubborn refusal of Japan's trade surplus to fall despite declining export volumes and a rise in imports. While the trade numbers measured in yen show falls from a year ago, the surplus in dollar terms totalled US\$31 billion in the first quarter of 1994, up 6.2% from the same period last year.

But EPA officials stress that, despite problems on the external front, some longer-term domestic indicators look brighter. In contrast with early 1993, when the economy rebounded but then declined again, business psychology now seems to be improving, says the EPA's Nishizaki. Although corporate-investment plans for the year to March 1995 are expected to fall 4.5%, the margin of decline is smaller than in 1993-94, when investment dropped an estimated 9.2% from the previous year.

Another promising sign is that manufacturers are at last trimming excess inventories. The ratio of industrial inventories to shipments hit a peak of 126 in the final quarter of 1993, but was down to 111.9 by the end of March. Past economic performance suggests that a sustained economic recovery should become possi-

ble at a ratio of 105-110.

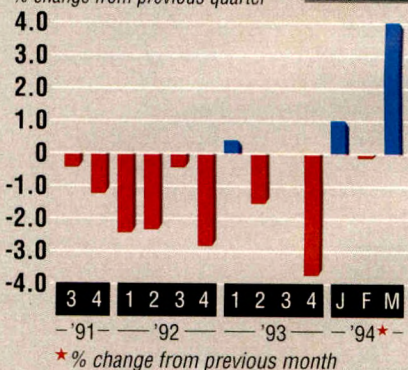
Personal consumption also shows improvement. Real personal consumption, as measured by the government's national-income figures, rose 0.7% in the final quarter of 1993 over the third quarter, followed by a further 1.7% rise in January. Consumption was off by 0.9% in February, but analysts attribute this, in part, to snowy weather in Tokyo that kept shoppers at home during most of one weekend.

Lower prices — particularly for clothing and food — are thought to be the main reason real expenditure has recently risen faster than real income. If the trend continues, Japan could be about to experience its first consumer-led recovery, suggests Mi-kio Wakatsuki, chairman of the Japan Re-

Late Surge

Japan's Industrial production

% change from previous quarter



Source: Ministry of International Trade and Industry

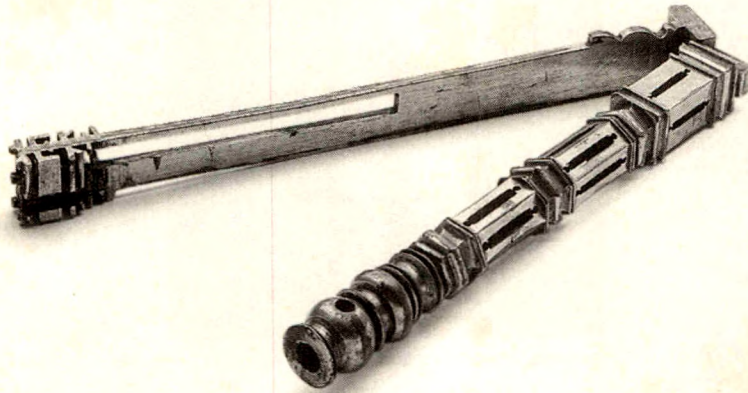
search Institute. Previous recoveries have been led by investment or exports.

Mike Naldrett, an economic analyst for Kleinwort Benson International, believes there is "every chance" that industrial production will begin a solid recovery in the second half of 1994 following three years of decline. "It will be a 'feel-bad' recovery because unemployment may go on rising until at least the middle of next year," he warns. "But we may be past the worst if the government can keep on pumping up the economy with income-tax [breaks] and increased public-works spending." Unemployment stood at 2.9% in March, but most analysts expect it to soon top 3%.

BZW's Vestal expects real growth of 0.5% in calendar-year 1994 and 2.7% in 1995. That compares with growth rates of 4-6% during the late 1980s.

■ Charles Smith

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Lean and Clean

Japan's Kao defies taboos and recession

By Jonathan Friedland in Tokyo

Tomihiro Nagase, who founded Kao Corp. in 1887, sold soap to the masses under the motto "A Clean Nation Prospers." So, apparently, does a lean company.

Kao posted its 19th consecutive increase in net profits in the year to March 1994 and achieved a return on equity that puts all its domestic competitors — and most large Japanese companies — to shame. Not only that, Kao has made a successful leap from making soap products into such seemingly unrelated lines as cake mixes and floppy disks. It has also established a promising foothold for its more traditional products in East Asia's booming markets.

Even more remarkable is Kao's ability to produce consistently impressive results during years of recession. In the year to last March — a time when the economy was flat and consumer spending in a trough — Kao posted a 4.4% increase in net income to ¥24.5 billion (US\$240 million) on a 2.8% rise in sales to ¥640 billion. It also increased its operating profit margin even as discounters slashed prices on many of Kao's key products.

Part of the reason for Kao's odds-defying performance is the company's unorthodox management approach to making quite ordinary consumer goods. "Kao is a lean and well-managed company," says Shuji Ozawa, a chemicals analyst at Merrill Lynch in Tokyo. "They have great flexibility and simplicity." Adds an executive at one of Kao's local competitors: "Unlike many Japanese companies, Kao isn't afraid of change."

Kao's willingness to depart from Japan's corporate norm has been amply demonstrated. Its management structure is deliberately non-hierarchical: while it has the usual complement of managing directors at the top, lower levels are much more fluid. Kao has no section chiefs or department heads, but a pool of managers who are constantly rotated among different tasks. "They are always revising their staffing patterns to get the best people in each job," says Kaori Hasegawa, an analyst at Salomon Brothers in Tokyo. "They are really unique in that way."

The company also encourages the kind of internal criticism and debate common in new-wave American companies such as Apple Computer or Nike, but rarely seen at Japan's buttoned-down blue chips. "There are no taboos at Kao," says Tomiaki Nagase, an urbane former executive at Fuji



Nagase: no taboos at Kao.

Bank and a member of Kao's founding family who is now senior managing director of the company. "We get to the point quickly and then move on."

That's been the case at Kao for some time. When inventory and sales costs soared in the early 1960s, Kao gave its regional wholesalers an ultimatum: either consolidate and become sole agents for Kao or lose the business altogether.

The creation of this *hansha* system, smoothed as it was by Kao's offer of capital and personnel, "was quite risky," says Ozawa of Merrill Lynch. "A manufacturer controlling the distribution process up to the retail store is still very unique, and at the time, it faced a great deal of resistance."

It was also way ahead of the curve. By cutting away the layers of middlemen that

had made distribution slow and inefficient, Kao was able to reduce costs and better serve its customers — an imperative in such mature, overcrowded product categories as soaps and household cleaners. Ten *hansha* now handle 80% of Kao's sales to retailers, a huge percentage of direct distribution by Japanese standards.

What's more, roughly 900 of the 300,000 retail stores selling Kao products throughout Japan are linked directly to each *hansha*'s computerised ordering and billing system. Kao announced last year that Jusco, Japan's fifth-largest supermarket chain, is signing onto the network. Nagase says that Kao expects to add nine more major retail chains to the group within a year, bringing the number of on-line outlets into the tens of thousands.

Kao can now deliver goods to retailers within hours or days instead of weeks, and has tailored its highly automated manufacturing output to information received from the *hansha*.

Through an elaborate consumer-complaint and retail-reporting system, it knows immediately how well a new product is doing and how to change it so that it will fare better. Dr. Yukio Sugimura, a senior researcher at Kao's Tochigi Laboratory, says that clear lines of communication between Kao customers and its researchers allow for rapid product modification. "There are no fences among our operations," he says.

This emphasis on practical results is reflected in Kao's advertising. Unlike Shiseido, which stresses the elegant image of its cosmetics, Kao puts the accent on how well its products work. For instance, instead of focusing on the image of a beautiful woman or a happy family, "they always stress the functionality of their products," says Baring Securities analyst Keiko Sasaki.

The combination of corporate streamlining and a reputation for earthy practicality put Kao in a particularly enviable position as the free spending of the late 1980s gave way to the more frugal 1990s.

At present, Kao leads the market in eight of 10 of its main product categories. In five of these — laundry detergents, fabric softeners, bleaches, skin cleansers and household cleaners — it commands a market share of 50% or more. Its profit margin, meanwhile, increased to more than 7% in 1993 from 5.9% in 1987, while its main competitor in detergents, Lion, saw its margin fall to 1% from 2.8%.

An unusual management style, plain-talking ads and good cost-control aren't the only things that set Kao apart, however. The company is well regarded for its basic scientific research and the ability to translate lab results into viable products. "While for many years we have worked on improving, and integrating our manufacturing, distribution and information-manage-



ment system, technology remains the base of everything we do," according to Nagase.

Indeed, most of Kao's chief executives — including current President Fumikatsu Tokiwa — started their careers in the company's chemistry labs. Roughly 25% of Kao's 7,700 employees are engaged directly in research and development, and 5.5% of net sales is spent annually to support their activities.

Kao's specialty is surfactants. Derived from oils and fats, surfactants, when manipulated, can change the quality of surfaces and are used in detergents, lubricants and anti-statics. Mastery over surfactants has allowed Kao to pioneer such products as a two-in-one shampoo and conditioner and a highly concentrated, cost-effective laundry detergent called Attack that can dissolve stains without hurting fabric.

It has also allowed Kao to become the world's biggest maker of floppy disks because surfactants can be used to bind particles together and spread them evenly over a magnetic surface. In 1985, "Kao saw that its surfactants could give floppies higher recording density, lower defect rates and superior reliability," says Ozawa. "Armed with this technology, Kao targeted the original-equipment-manufacturing market in the United States, which was relatively

easier to develop than [Japan's] end-user consumer markets, which are very competitive."

Kao now claims a 15% share of the 3.3 billion floppy disks produced worldwide every year. And it has built a steady earner out of its "fulfilment" business, where it duplicates and commercially packages software for such giants as Microsoft and Novell.

However, its global-information technologies business is still in the red,

acknowledges Nagase. The reason: a combination of high capital expenditure and severe price erosion, mainly due to low-cost Chinese floppies entering the global market. But, he adds, "Our manufacturing operations are very efficient, and in combination with duplication and fulfilment, we think the business can be profitable."

Kao faces a tougher battle on its traditional-product fronts as rival companies, spurred to action by a recessionary collapse in revenues, try to duplicate its lean operation. Many analysts believe that Kao has squeezed about everything it can from its sales and operating costs just as price competition for items ranging from laundry detergent to cosmetics is getting fierce.

For instance, Daiei — Japan's largest supermarket chain — last September introduced its Savings brand of detergent that is made in South Korea and comes in a carton that looks just like Attack's. Its retail price is ¥298 — about half Attack's already low average retail price.

"I am concerned that Kao will come under pressure from the big discounters," says Merrill Lynch's Ozawa. "They haven't yet changed the shipping price on Attack, so it is the retailer that is being squeezed, but that can't go on forever."

Nagase says that Kao can meet the challenge. "We are confident no one else can offer better value at a better price," he says. Citing a target set by Daiei Chairman Isao Nakauchi, he adds: "[Daiei] wants an overall market share of 10% and that's fine. Even now the Savings brand is [only] 20% of their [detergent] sales and that's at a price 50% cheaper than Attack." Nonetheless, Kao is looking to new businesses and new markets abroad to maintain its record of steady growth.

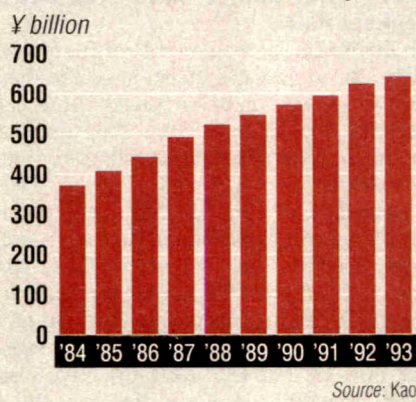
International operations account for about one fourth of Kao's group sales, but so far the company's overseas track record has been mixed. While revenues have shot up in Europe and the U.S. because of the floppy-disk business and the acquisitions of American skin-care company Andrew Jergens and German beauty-salon chain Goldwell, profits have been elusive. More promising, say analysts, has been Kao's push to build on its already formidable presence in East Asia.

The company is already a major player alongside Procter & Gamble and Unilever in Hong Kong, Taiwan, Malaysia, Singapore, Thailand and the Philippines. And last year it stepped up efforts to develop products specifically gauged to Asian tastes and to build up its offshore-manufacturing operations to meet its goal of a 15% year-on-year increase in regional sales.

Within the last year, it opened a joint-venture shampoo factory in Shanghai, doubled the size of its bulk-chemicals operations in Malaysia and began expanding capacity at its full-line Bangkok factory. ■

Steady Growth

Kao's sales have risen each year



Crazy for Coconuts

Dr. Yukio Sugimura has spent 10 years trying to clone a better coconut palm. So far, the senior researcher at Kao's Tochigi Laboratory has come up with a few promising hybrids and a lot of frustration.

"Cloning is very difficult," he sighs. "The problem is that you can only get one plant out of 1,000 tissue [cultures], so it isn't commercially viable." Not only that, says the chemist, mutations often render the hybrids worthless.

Nonetheless, Kao scientists working with Philippine researchers have come up with at least one coconut palm that — if successfully propagated — could help restore commercial vitality to the world coconut industry. The short but sturdy wonder palm bears its first fruit in only three years at a height of 40 centimetres, compared with a norm of six years at five metres. Moreover, the oil yield of Kao's dwarf palm is seven times that of average Philippine coconut trees because it bears more fruit.

Kao is fixated on growing a better coconut tree for a simple reason: coconut oil contains a type of fatty acid that is a key ingredient in high-quality shampoos, soaps and detergents. And

although this acid can be synthesized from petrochemicals, "it is still [more] economical and environmentally sound to use coconut oil and palm-kernel oil instead," says Sugimura.

In addition, raw and semi-finished materials form a big part of Kao's business. In 1993, basic chemicals accounted for roughly ¥80 billion (US\$800 million), or 13%, of the company's annual sales. That puts Kao among the top ranks of Japanese industrial- and food-chemical producers.

The work of Kao's 2,200 researchers ranges from the coconut experiments to the development of enzymes to make teeth whiter and breath fresher to the distillation of better inks and lubricants. Several teams are devoted to fashioning products aimed at specific markets. Earlier this year, for instance, Kao unveiled a new shampoo aimed specifically at East Asia — one that foams well in cold as well as warm water and contains a conditioner, a particularly tough technical feat. The shampoo, called Sifone, was developed jointly by Kao's Tokyo laboratory and its Taiwan research facility.

■ Jonathan Friedland

Poles Apart

Analysts differ on outlook for Thai stocks

After soaring 73% in the last quarter of 1993, Thai stock prices tumbled 26% — more than any others in Asia — in the first three months of 1994. A sudden withdrawal of foreign funds and a rise in local interest rates were the chief culprits. Despite signs of reaching bottom in April, the slide has since revived. The Stock Exchange of Thailand (SET) index closed at 1,223 on May 9, down 1.4% from its March 31 close.

Where does the market go from here? Analysts **Robert Zielinski** and **Susheel Narula** differ in their estimates of the SET's near-term prospects. Zielinski is the head of research for Bangkok-based Jardine Fleming Thanakom Securities, while Narula is a director in the Thailand office of Smith New Court (Far East). They spoke with REVIEW correspondent **Adam Schwarz**.

The economy is growing by more than 8% a year. Will a healthy economy be able to revive the stockmarket in the coming months?

Zielinski: No. This economy is very strong, but you have rising interest rates and rising inflation. Sadly, the Thai stockmarket is very highly geared and very interest-rate sensitive. Half the market is made up of banks, finance companies and property companies, all of which suffer when interest rates are on the rise. And because inflation is running well ahead of what the Bank of Thailand is targeting, the bank is pushing for a tightening of monetary conditions, which is again very bad for a stockmarket.

Narula: It will certainly help. One problem area is earnings growth, however, because we will probably see a lot more dilutions in the months ahead, mostly through secondary issues of stock by listed companies, together with some rights issues.

Is uncertainty surrounding the stability of Prime Minister Chuan Leekpai's governing coalition holding back the market?

Zielinski: The uncertainty is a problem because it is delaying a lot of infrastructure investment in Thailand. People are unwilling to go ahead with investments because they are not sure if the government officials in charge of the big projects will be around in a couple of months. Consequently, real-economy stocks are suffering from a shortfall of demand.

Narula: Along with rising interest rates worldwide, this is the main issue holding up the market. A lot of fund managers

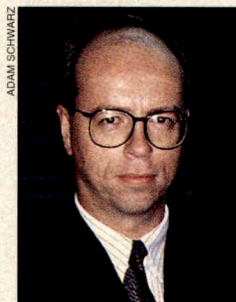
and investors are waiting for something to happen. But I think what we might see is that any correction following a House dissolution would be very small, followed by a quick, strong recovery.

Will higher interest rates drag down banking stocks?

Zielinski: The banks' cost of funds has gone up, so now the question is: can they pass these costs on to borrowers? In recent months, deposit rates have gone up, but lending rates really haven't followed quite as quickly.

Narula: Our view on bank stocks is still positive. Loan expansion is running much faster than last year's 18-19%. There has been a lot of talk of declining margins. In the first three months of this year, we saw deposit rates climbing, but what we're seeing now is that lending rates have also risen, although this has gotten less attention in the press. We expect that loan expansion plus a rise in fee income will more than offset any decline in margins.

Which sectors offer good opportunities



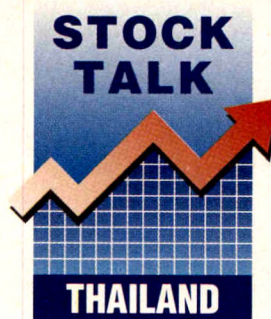
Jardine Fleming's Zielinski.

At a reasonable valuation, the market should drop to about 1,080



Smith New Court's Narula.

Along with rising interest rates worldwide, [political uncertainty] is the main issue holding up the market



until the end of the year?

Zielinski: Banks, simply because they're cheap. The price-earnings [P/E] ratio of the banking sector — currently about 10-11 times — is at the greatest discount it has ever been to the P/E of the market as a whole.

Narula: I would overweight finance companies because they have dropped down so much. This is the sector that always overreacts.

This time, there has been a lot of overselling, and some firms were down more than 50% in the first quarter. There are also good values in the telecoms sector, but you have to be quite selective. In terms of valuation, telecoms stocks are hard to justify. People are buying on the expectation that listed companies will get additional concessions from the government later on.

What are your favourite stocks at the moment?

Zielinski: PTT Exploration & Production. This is the only listed oil exploration and production company in Thailand. It has huge proven and possible reserves and, valuing the company very conservatively, it is worth about Baht 150 [US\$5.96] a share. [Its price on May 9 was Baht 132.] In coming years we're pretty sure they will make new discoveries, and if oil prices go back up to US\$22-23 a barrel, the stock is worth Baht 300 a share. It is actually one of the few hedges available on this market against rising oil prices and rising inflation.

We also like **Advanced Info Services**, the market leader for mobile phones. Its earnings-per-share growth this year is estimated at 71% and its profits will almost double in 1995 as well. Although its P/E is a quite hefty 44 times this year's earnings, its growth in earnings is so strong that if you buy it now and the stock goes down, you can be pretty certain of a recovery. It's actually a cheap telecoms play.

A little-company stock we like is **Thai Rayon**. Textiles have been in a recession for the last two years, yet the company has remained amazingly profitable. Currently there is a global cotton shortage and the price of cotton has gone through the roof. The price of polyester has also gone through the roof — about 50% in the last two months — but rayon prices haven't moved yet. If rayon prices go up, the company is in great shape. At the moment, it is selling at a bargain P/E of six.

Narula: NTS Steel. Demand

for steel is high and prices are going up. We also like **Advanced Info Services**. At a multiple of around 40 times, it's cheap for the telecoms sector. Subscribers for mobile phones are expanding like anything — almost 1,000 new subscribers a month. We are also bullish on **Thai Farmers Bank**, but this is more of a long-term play.

With lots of infrastructure spending planned for this year, are construction stocks worth a closer look?

Zielinski: Most of the cement stocks have been stellar performers over the past year. Cement demand last year was quite strong. On that basis, people bought the stocks even though there has been little turnaround in profitability. The construction stocks outperformed the market in the first quarter, only dropping 7%. We are now waiting with anticipation for first-quarter results. If they show good results and robust growth, then we may have the basis for the market to rally on the back of them. The whole market is watching for the results of **Siam Cement**.

Narula: Overall, we're quite positive on the sector, especially upstream players like cement and steel manufacturers. We are very bullish on cement-maker **TPI Polene**, which is expanding capacity. Suddenly Thailand has found itself short of cement, even though last year everybody was predicting there would be excess supply.

Where do you see the index at year-end?

Zielinski: At a reasonable valuation, the market should drop to about 1,080. Now that we've had a big sell-off, we will probably see pretty shortly a rally for whatever reason. But the fact is the market is still too expensive. We're on a P/E of 20 times next year's earnings. None of these Southeast Asian markets deserves to be on a P/E of more than 15. I can see the market rallying here and there, but you have a lot of expensive finance stocks, a lot of expensive property stocks, and some very expensive communications stocks.

Some foreign money will come back but not with the same enthusiasm as last year. I'll tell you what really concerns me: the market has come off something like 25% since the beginning of the year, and yet we have fewer "buy" recommendations now than we did then. The more the market falls, really, the less attractive it becomes.

Narula: It's more a guess than a prediction, but I would say between 1,700 and 1,800. There is still a lot of money waiting to be invested, foreign and local. Domestic mutual funds are sitting on a lot of cash. They collected Baht 61 billion in the first four months of the year and a lot of that is still in cash. The foreign investors will come back, although at a steadier pace than last year. Barring a political crisis, I don't see more than a 10% downside risk this year from current levels.

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PROPERTY

Pay Up

Hong Kong retailers face big rent increases

By Louise do Rosario in Hong Kong

Property prices in Hong Kong are falling and office rentals are cooling. Will retail space be cheaper too? Yes, but not by much, analysts say.

Retailers are still making enough to pay the high rents, thanks to the buoyant economy. "The rents are supported by real good business," asserts Richard Tam, an assistant director at real-estate consultant Vigers Hong Kong. Tam and other specialists are predicting slower, single-digit growth in retail rents this year — not the 20-30% correction seen recently in the residential market.

Too bad for retailers, who have been surrendering more of their income to landlords. "We understand that rents are driven by supply and demand, but we still hope rents will come down one day," says Terry Ng, a director of the leading casual-wear retailer, Giordano.

Japanese department stores, which need lots of space in prime areas, have been particularly hard hit by the rental squeeze. Many of them signed leases a decade ago, when rents were a fraction of today's rates. Matsuzakaya closed its 10,000-square-foot Admiralty store on Hong Kong Island in March because the landlord, Hang Lung Development, had asked for a tripling of the rent to HK\$300 (US\$39) per square foot. A Hang Lung official says the space probably will be divided into small units.

Yaohan, another well-known Japanese chain, has been negotiating for months with Sun Hung Kai Properties to lower the asking rent of HK\$100 per square foot for its store in the New Territories town of Shatin. For the last 10 years, Yaohan has been paying only HK\$18 per square foot. "We'll try to stay in Shatin, where we first started," says a Yaohan spokesman.

Retail rents would fall if the China boom busts or if interest rates climb to dampen consumption — both unwelcome scenarios to retailers. So far, however, China hasn't crashed and interest rates have gone up only a bit, "not high enough to kill consumption," says Daryl Ho, an economist at Jardine Fleming Securities. But if there is an increase of two to three percentage points this year, there "will be a negative wealth effect" and spending may go down, he says. Retailers would be hurt and less willing to pay the high rents.

This hasn't happened despite the prospect of a more difficult business environment with a slow-growing China. In the first two months of 1994, retail sales rose



Retailers will have to stay lean and mean to survive.

18.4% in value from a year earlier. "This exceptionally high rate is not sustainable," says Mak Nak-keung, senior economist at Standard Chartered Bank. But 10-12% growth for all of 1994 is possible, "unless there is a major setback to confidence or a sudden contraction of wealth," he says.

There has been a lot of wealth around lately. In the past three years, retail sales grew by double-digit rates annually. Retail rents followed, rising since 1991 by a total of 60-70%, "a little bit above inflation," says Lawrence Wong, a director of Sheraton Valuers, a retail-property agent.

In Causeway Bay, Hong Kong's prime shopping area, retail space has become the most expensive in the world. One extreme example: a fruit shop in the heart of that area is paying a monthly rental of HK\$3,429 per square foot, a rate higher than what a classy boutique in Paris or a jewellery shop in Tokyo pays.

Rents in Causeway Bay will remain firm, analysts say, though the doubling of rents within months for some prime sites last year is unlikely to recur. The completion of a few prestigious blocks, such as Times Square and the 22-storey department store, Jumbo Sogo, "have lifted the profile of the whole area," says Vincent Luk, an analyst at James Capel Asia.

The next favourite shopping areas are Tsimshatsui, the traditional tourist area, and Nathan Road, both on the Kowloon peninsula. Some retailers may not be able to afford the HK\$300-600 per square foot rentals in these areas, but competitive ones

can quickly step in to fill the void. "When did you last see a retail space along Nathan Road left vacant for more than a month?" asks Tam of Vigers.

There are some vacant units, though, in poorly managed premises and inferior locations. "Some shopping centres are not doing very well because they are cramped or their entrances are not very good," says Alan Dalglish, research manager at First Pacific Davies. This is especially the case for shopping malls owned by numerous small-time investors. "Most of these centres have not worked out well; management is poor and the common areas are not taken care of," says Peter Lee, a director at property consultant Jones Lang Wootton.

Overall, a cooling in the retail market will be milder than other property sectors because speculation has been less rampant, analysts argue. Unlike some residential blocks, most retail-property prices have gone up steadily rather than doubled in value in just a few months, notes Wong of Sheraton. Causeway Bay may be getting astronomical rentals, but "those in peripheral areas like Tuen Mun have gone up by low single digits in recent years," says Mak of Standard Chartered Bank.

"The retail market is a completely different animal" from other property sectors, adds Luk of James Capel. It offers a higher yield than the residential or office sectors. Landlords, therefore, are better placed to cope with any business downturn.

With landlords not willing to budge, retailers have to remain lean and mean to survive. This is especially true for clothing retailers, which pay up to 25% of their revenue for rentals. "We have to streamline our operations to cover the rents. Overheads are something we can control; rents, we can't," says Ng of Giordano, which has four shops in Causeway Bay.

Another option is to sell higher-value goods to generate bigger margins. Supermarkets, for example, do so by selling more French products, notes Wong Kam-ming, a retail analyst at S. G. Warburg. "Margins are getting thinner and the situation is becoming worse. These chains are under many cost pressures, with operating margins of 6-7% only," he says.

The easiest way out for hard-pressed retailers is to get out of Hong Kong or the retailing business completely. Wong notes that conglomerates like the Swire Pacific and Jardine Matheson groups are either concentrating more on the China market or switching to non-retail projects. "There's little room for expansion in retailing in Hong Kong," he says. ■



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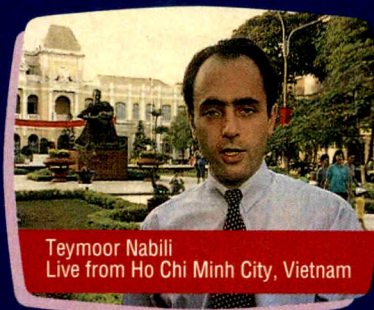
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Pirates' Lair

U.S. pressures Beijing over copyright protection

By Carl Goldstein in Hong Kong

Microsoft was livid. After two years of legal battle, Chinese authorities fined a Shenzhen company only US\$250 in a trademark-infringement case that the computer-software giant says cost it millions of dollars in lost sales.

The fine announced in December has since been increased to US\$2,500. But Microsoft's high-profile fight and its unhappiness about the meagre results help explain why the protection of intellectual property rights has forced its way to the front of the United States-China bilateral trade agenda. On April 30, Washington postponed for 60 days a decision on whether to declare China a "priority foreign country" — a designation that could lead to trade sanctions. The delay reportedly was intended to avoid complicating a separate decision, due by June 3, on whether to extend China's most-favoured-nation trading status.

Microsoft is not alone in its battle to protect copyrights. But its case is unusual for its magnitude and for the company's aggressive pursuit of redress. Many other foreign companies, facing an onslaught from counterfeiters of compact discs, movies, books and software, have chosen to negotiate quietly, filing suit only as a last resort.

It's not clear that either strategy works. In Microsoft's case, a full two years elapsed between the initial raid on the Shenzhen Reflective Materials Institute in southern China and the ruling from the State Administration of Industry and Commerce (SAIC) — the agency charged with overseeing trademark and copyright protection in China.

"We don't want Microsoft or any other company to have to go through this sort of thing again, and if any [counterfeiting] enterprise thinks twice before doing something like this again, then we will have achieved our end," says Alix Parlour, a corporate attorney for Microsoft.

The company had caught the institute, the commercial arm of Shenzhen University, illegally making the holograms used on its software packaging. The SAIC found the firm guilty of shipping 200,000 fake holograms to a Taiwan-based counterfeiting ring. Based on a retail cost of about US\$100 per software package, Microsoft is seeking US\$22 million in damages in an appeal. But documents found at the insti-

tute suggest that at least 650,000 holograms were shipped, while orders for 3 million had been placed.

U.S. trade associations are calling copyright piracy a serious threat to the growth of their business in China. The International Intellectual Property Alliance in Washington estimates that American businesses lost more than US\$800 million in sales last year, including US\$322 million in software. Another group, the Business Software Alliance, put 1993 losses stemming from sales in China of pirated software at US\$596 million.

For its part, Beijing points to a host of regulations outlawing or tightening restric-

improving copyright protection depends on perspective. "The Chinese say 'look how far we've come,' while we say 'look how far you still have to go,'" says a U.S. diplomat.

Chinese officials promise that more is on the way. Cai Cheng, the vice-director of the legal affairs subcommittee of the National People's Congress (NPC), on April 26 told the Xinhua newsagency that the NPC would soon draft legislation making copyright and patent violations a criminal offence. And Beijing says it is moving to enforce existing laws more aggressively.

Still, Microsoft is less than overwhelmed. Indeed, some 98% of the software sold under its name in China is fake, says the company. "For hi-tech industries, there's a huge gap between what we need to see and what the Chinese are prepared to give at this time," says Parlour.

For U.S. trade negotiators, Beijing's recent moves are not enough. By delaying a decision on the intellectual property-rights issue, Washington hopes to extract a commitment for tougher law enforcement, particularly at the local level. But barring a negotiating breakthrough, the delay seems unlikely to make the eventual decision any easier.

Still, many believe that Beijing is serious about improving the situation. The difficulty is getting local authorities to comply; some of the worst copyright offenders are owned by local-government entities, as in the case of the Shenzhen Reflective Materials Institute. "These factories are usually protected by the local government," says Michael Jardine, the Hong Kong-based director of regional business development for Walt Disney.

To protect its products, Disney hires investigative agencies and relies on its local companies to let it know when counterfeit goods appear. It also has held meetings with senior officials, including Vice-Premier Zhu Rongji. The company hopes to prevent the massive tide of knock-offs that caused it to pull out of China in 1989.

"We were given assurances that they were very serious about making these legislative changes effective," says Jardine. But with the company's business booming, Disney is already seeing a rise in counterfeiting. The company has filed one case in Beijing against three state-owned publishing companies and plans additional actions.

For now, the lure of China's huge domestic market makes Disney inclined to put up with such obstacles. "Most companies just talk about selling one of something to each Chinese," says Jardine. "Last year our licensee sold a billion pieces of Donatelli Duck bubble gum, so this year our target is two pieces a person."

Roll of Dishonour

Estimated 1993 trade losses due to piracy
(US\$ millions)

	Motion pictures	Records & music	Computer programs	Books	Total
China	50	345	322	110	827
India	40	45	81	25	191
Japan	95	n.a.	854	3	952
South Korea	20	20	371	12	423
Thailand	20	12	98	25	155
Indonesia	45	12	95	40	192
Taiwan	26	6	106	12	150
Philippines	23	15	n.a.	70	108

Source: International Intellectual Property Alliance

tions on copyright, patent and trademark violations as evidence it is cracking down on the pirates. It acceded to international copyright conventions in 1992, and last year began establishing special intellectual-property divisions in intermediate courts around the country. The Beijing court began operation last summer. Since then, chambers have been set up in Shanghai, Xiamen, Fuzhou, Hainan and Guangzhou.

In another move, the government on April 18 issued a directive aimed at controlling the rampant manufacture of fake compact and laser discs. The order stipulates that machinery used to make them must be licensed and that existing plants must register with the central government. This move was followed by a series of raids in Guangdong province on April 20 that led to the seizure of 50,000 pirated discs.

But judging how well China is doing at

Hold the Phone

Have Manila's Cojuangcos built a shelter in Piltel?

By Rigoberto Tiglao in Manila

If you're toting a mobile phone in Manila, chances are you're a customer of Pilipino Telephone Co. And that means you have a bit-part in a classic business success story.

Piltel, as it's known for short, is riding the boom in Philippine demand for mobile phones and other telecoms services. Once an obscure subsidiary of the giant Philippine Long Distance Telephone Co. (PLDT), it's been catapulted into leadership of the mobile-phone market, claiming 80% of the country's 100,000 users. Its profits have soared — to P358 million (US\$13 million) in 1993 from just P6 million in 1990. The company hopes to list on the Manila stock-market later this year.

There may be more to Piltel, however, than meets the eye.

Its rapid emergence in the last three years raises some intriguing questions about the manoeuvrings of the Cojuangco family, which controls PLDT. In particular, have the Cojuangcos quietly sewn up family control of Piltel as insurance against the risk they might one day be dislodged from its parent?

That question is at the heart of two legal suits that seek to block Piltel's listing application, now before the Securities and Exchange Commission (SEC). Filed by a consumer group called More Phones, the suits demand that Piltel fully disclose its beneficial owners. "Unless the company does so, the suspicion remains that behind the controlling shareholders of Piltel are the Cojuangcos," says the group's counsel, Felisberto Verano.

Piltel President Ramon Cojuangco (younger brother of PLDT President Antonio Cojuangco) denies the family has a stake in Piltel; he told the REVIEW the clan owns only a nominal 20 shares. PLDT and Piltel are contesting the SEC suits.

What is beyond doubt, however, is that Piltel's ownership structure was heavily revamped in 1992 as it sought cash for expansion. In the restructuring, the Cojuangco-controlled PLDT kept its 40% stake in Piltel, but another 30% held by PLDT employee funds dropped to 4.1%. This reduced the PLDT camp's total holding below 50%. However, as the Cojuangcos could choose who to sell to, the new shareholders are presumably sympathetic — at the

very least — to the family. One shareholder appears to have especially close links to the clan.

Moreover, the Cojuangcos have ample motive for wanting some kind of insurance policy. Their control of PLDT and the company's monopoly have come under increasing threat from President Fidel Ramos' attack on vested interests. (There are even rumours that More Phones has links with officials close to Ramos.)

The first attempt, though ultimately unsuccessful, to chip away PLDT's monopoly occurred in 1990, when a regulatory body capped the company's mobile-phone business at 10,000 users and restricted it to metropolitan Manila. The restriction favoured Express Telecommunications (Extelcom), the country's first mobile-

sion. PLDT's own resources were under pressure, and the Cojuangcos appear to have judged it would be bad for PLDT's image to be seen dominating the emerging mobile-phone market. In 1992, therefore, Piltel raised US\$70 million by selling stakes to two groups of companies. And it is here that the questions about Piltel's ownership begin. The two groups were:

► Three foreign investors — United States-based American Insurance Group (AIG), which raised its stake to 12.2% from 5%; Malaysian businessman Robert Kuok, whose companies bought 10.7%; and the San Francisco-based Emerging Markets fund, which acquired 9.2%. A month earlier, Emerging Markets had financed part of PLDT President Antonio Cojuangco's controversial foray into Philippine Airlines. Sources have also told the REVIEW that, as with its investments in Philippine Airlines, the fund has assigned its Piltel voting rights to the Cojuangcos. (Unlike AIG and the Kuok group, the fund isn't represented among Piltel's 11 board directors, six of whom are Cojuangco men.)

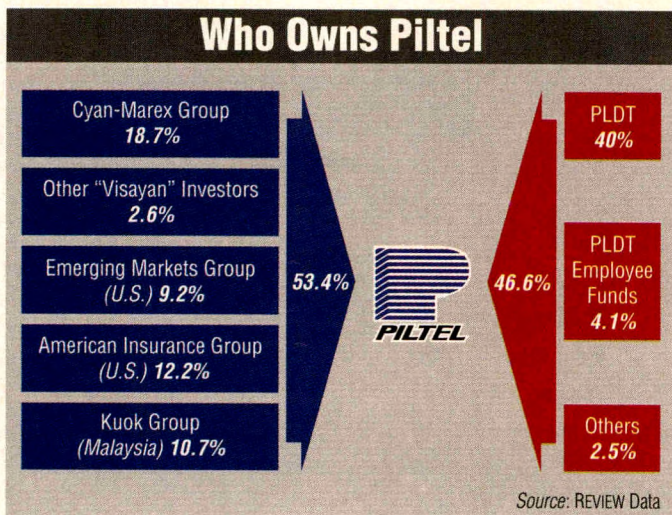
► Two local firms — Marex Sales, which had raised its holding in 1991 to 14%, representing an increase to 5.6 million shares from 893,800; and Cyan Management, which bought a 4.8% stake in April 1992. (Other investors, from the Visayas, central Philippines, bought 2.6%.) In March 1993, according to SEC records, Cyan took complete control of Marex — making Cyan-Marex, with 18.7%, second only to PLDT in the size of its Piltel shareholding.

Was the completion of these sales, in some cases just days before Ramos took office in June 1992, the result of prescience on the Cojuangcos' part? The family, after all, had backed one of Ramos' rivals in the presidential election.

Piltel chief Ramon Cojuangco insists the timing was a coincidence. "It was the culmination of a capital build-up that took a year and a half, which the company needed and which brought it to where it is now," he declares. "We raised US\$70 million in finances in a period when things were uncertain."

He categorically denies that his family has secret holdings in Piltel. "We're already in PLDT; why should we go into Piltel?" he says. Noting that the clan's money in PLDT is currently frozen as a result of government efforts to show their stake in the phone giant was improperly acquired, he adds: "Why should we let our money get tied down in Piltel?"

To some, however, it looks odd that the Cojuangcos eschew a direct stake in an extremely successful company that owes



phone operator. In a further blow in October of that year, the Supreme Court demolished PLDT's main defence — ruling that it must connect Extelcom's users to its network.

PLDT quickly found its answer in Piltel. (Many believe the Cojuangcos also drew strength from the fact they are nephews of then-President Corazon Aquino.) Piltel was then a small, unimportant operator of land-line systems outside Manila. It had been bought by PLDT in 1975 and virtually forgotten about until company officials discovered it held a 1960s franchise from Congress to operate a nationwide telecoms network. Just two months after the court defeat, Piltel won approval to operate cellular phones across the country. PLDT launched its champion into the fray by turning over to Piltel its existing 10,000 subscribers.

But Piltel still needed cash for expansion.

much to their management, and to a parent company they control.

These doubts are fuelled by several other factors, mostly relating to the Cyan-Marex stake. One of them is where Cyan and Marex got the money to buy their Piltel shares.

Marex was capitalised at just P100,000 when it invested P56 million in Piltel in 1991. Its capitalisation rose to P15 million only in March 1993. At a stockholders' meeting that month, the firm's corporate secretary noted that "the company has not been in operation since its incorporation [in February 1976] because of the absence of any viable business opportunities."

Cyan, likewise, was capitalised at only P5 million when it paid a first instalment of P15 million for Piltel shares in April 1992. At the time, it was servicing a P30 million bank loan that financed its investments in Directories Philippines, publishers of PLDT's phone books.

According to SEC documents, Cyan is owned 40% by Jose LaO and 60% by Benjamin Bautista. LaO, chairman, is a partner in Feria, Feria, Lugtu, LaO — a law firm that acts for both the Cojuangco family and Piltel. LaO didn't reply to requests to interview him or Bautista.

In response to a REVIEW question, Piltel president Ramon Cojuangco categorically denied that LaO is holding Cyan's shares on behalf of the family. He says LaO is a property owner, holding prime real-estate in Manila's Ayala business district, and therefore capable of making his own investments in Piltel. Moreover, he describes LaO and Bautista as part of the so-called "Bacolod group" of businessmen, chiefly sugar barons in Negros island, who were allies of his father.

"We turned to them for help when Piltel needed a capital build-up in 1992," Cojuangco says.

On the face of it, LaO and Bautista's combined ownership of a chunk of Piltel makes them the country's newest peso billionaires. Adjusted for a 100% stock dividend, followed by a 10-for-1 stock split, the 75 million shares Cyan-Marex owned in 1992 is now 150 million. At the valuation of P22-39 a share that Piltel officials are targeting for the initial public offer, the shares now have a paper worth of P3.3-5.9 billion, up from P75 million originally.

In its flotation, Piltel plans to sell 20% of its enlarged stock. A further 3% would be reserved for foreign underwriters and 1% for company employees. The company hopes to raise P5-9 billion as a war-chest for the country's gathering telecoms battle. There will be plenty to spend it on: Piltel has already pushed into the pager market, has won rights to operate landlines over much of Mindanao, and is expected soon to win approval to handle international traffic. ■

FINANCE

VSNL Gets Cut Off

Offer's failure jeopardises other Indian issues

By Mark Clifford in Hong Kong and Hamish McDonald in New Delhi

Could the failed international equity offer by Indian state-owned telecoms firm Videsh Sanchar Nigam Ltd. (VSNL) rise, Lazarus-like, from the dead? It's a slim hope, but real enough that a senior official of Salomon Brothers, one of two lead underwriters, flew to New Delhi to try to breathe life into the offer a week after its collapse.

The Indian Government's decision to withdraw the issue because it couldn't meet its target price has caused unprecedented finger-pointing among underwriters, potential investors and Indian officials.

Whatever happens to VSNL, the immediate effect is to place a question-mark over other Indian global depositary-receipt (GDR) issues that are in the pipeline. At the very least, the debacle is likely to make investors look more critically at the offers. And, probably, only the best companies will be able to proceed.

Among these will be the Oil & Natural Gas Corp., which hopes soon to raise about Rs 30 billion (US\$970 million), split equally between the domestic and Euro markets. Another will be Ballapur Industries, flagship of the L. M. Thapar group, which aims at a modest US\$35 million.

However, the Indian Ministry of Finance is also talking about a US\$2.5 billion annual "cap" on total Euroissues, with some bureaucratic pre-selection in favour of investments in infrastructure or export industries. This reflects the ministry's desire to reassert control, as well as worries about inflation: capital inflows are seen as one cause of renewed inflation, currently about 10.5%.

At a planned US\$1 billion, the VSNL deal would have been the biggest GDR offer yet from a developing country. But it was vulnerable from the start. The Rs 1,400-1,600 per-share price that Salomon and co-lead-underwriter Kleinwort Benson agreed

with the government in December was enshrined in a cabinet decision, robbing the underwriters of flexibility to adjust the price when market conditions changed.

"We were caught up in a political battle," says an executive with one of the firms. "We did everything right." Markets, though, are unforgiving. According to the underwriters, prices of India's 17 GDRs fell an average of 12% during VSNL's April-May roadshow. The executive says the underwriters had "US\$800 million on the table" at a suggested lower price of Rs 1,100 a share — but the government refused to retreat from its target range.

Members of the underwriting syndicate, however, say the deal was poorly managed. The syndicate was well into its second week before potential investors were given a price. While the underwriters say this is normal on a long roadshow, it appears they were counting on big demand at the last stop — the United States — that didn't materialise.

In addition, there were several ambiguities in government policy, some of which may have had a bearing on the outcome:

► It wasn't clear in India where the target came from. Late last year, VSNL was reportedly seeking US\$200 million. That quickly became US\$500 million, then US\$1 billion.

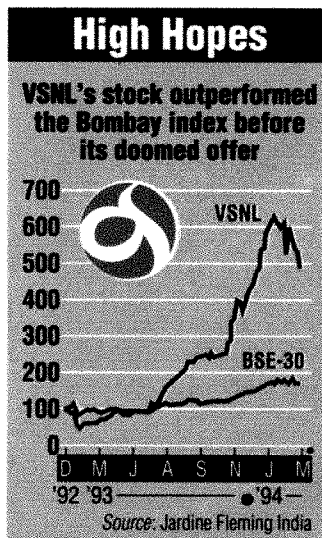
► Talk that domestic telecoms carrier Mahanagar Telephone Nigam Ltd. also planned a Euroissue muddled the waters by giving investors a potential alternative.

► Although issue documents said VSNL's monopoly on overseas traffic has been reaffirmed for 10 years, that fact hasn't been publicised in India.

► Minister of Communications Sukh Ram is opposed to privatisation, pitting him against the reformist chairman of the Telecoms Commission, Nagarajan Vittal.

Another casualty will undoubtedly be VSNL's share price, which rose hugely (see chart) in the months before the issue's launch. The 15% of shares floated domestically in December 1992 is thinly traded, making the price easy to push up. The price soared to Rs 1,715 in January this year, after the GDR issue was announced, from Rs 270 in December 1992. Since the collapse, it has dropped to around Rs 1,200.

Indian officials say VSNL may go back to the markets, at its original price, when the time is right. That may be a while. Otherwise, the company may raise funds domestically, returning later to the Euromarket for a smaller amount. ■



CURRENCIES

Just a Slip

Despite intervention, the yen is expected to test higher

By Jonathan Friedland in Tokyo and
Susumu Awanohara in Washington

It was certainly an impressive operation. To shore up the U.S. dollar, which has been weakening despite a strengthening American economy, the Federal Reserve and 15 other central banks staged a massive and well-publicised market intervention on May 4.

Along with U.S. Treasury Secretary Lloyd Bentsen's reference to the dollar as "undervalued," the support for the U.S. currency seemed to have worked — at least temporarily. In the week after the initial intervention, helped by subsequent, smaller central-bank efforts, the dollar rose to ¥104.40 from ¥101.00, and to DM 1.674 from DM 1.637.

Analysts in Tokyo don't believe, however, that the dollar's woes are over. Most say the yen will remain under upward pressure at least until the Group of Seven Summit in early June, and that traders will repeatedly test the solidarity of the 16 central banks that made common cause on May 4. Tetsuhiro Tomata, a researcher at Long-Term Credit Bank of Japan, expresses a common view when he predicts the dollar will trade at ¥95-105 until the Naples Summit.

If so, Japan's major exporters face tougher sledding than expected in the fiscal year that began on April 1. Eijiro Hata, the new minister for International Trade and Industry, says that each one-yen rise against the greenback costs Japan's car industry a 15% decline in pre-tax profit, and electronics companies nearly 9%. Officially, at least, only 1% of Japanese firms say they can break even at ¥100 to the dollar.

The yen's continued strength, say analysts, will not only crimp profits, but will fuel efforts by Japanese firms to shift production overseas, mostly to Southeast Asia and China. That, in turn, will speed up the restructuring of regional trade now under way. Japan, which once imported little from its Asian neighbours other than raw materials, while exporting both finished and capital goods to them, now increasingly imports finished products from the region. That is most noticeable in electronics: last year, Japan became a net importer of televisions and video-cassette recorders.

Economists offer several reasons for the almost counter-intuitive fall of the dollar in recent weeks. One is that despite a small

reduction in the U.S. budget deficit, neither the overall U.S. savings-investment balance nor the current-account deficit with Japan — and the world — are narrowing. Assuming no major offsetting capital flows, a persistent deficit bolsters beliefs that the dollar must weaken in the longer term, says a Japanese banker. Reinforcing this perception is news that Japan chalked up another huge current-account surplus, of US\$130 billion, in the fiscal year just ended.

Economists say the dollar is also being hurt by changing perceptions of relative economic strength among the U.S. and other industrial countries. While the U.S. economy is running at a rapid clip and the Federal Reserve has recently tightened credit — indicating that a slowdown is on

Minister Tsutomu Hata is under pressure from his business backers to cut some kind of trade deal with Clinton, but his shaky minority government may not last long enough to see it through.

Contributing to downward pressure on the dollar have been the activities of financial institutions in the major markets. In the case of Japan, U.S. and European investors substantially increased their holdings of Tokyo stocks in both the first and second quarters of 1994, helping boost the yen. By contrast, Japanese institutions sold dollar-denominated securities during the same period, particularly their hefty position in U.S. Treasury bonds and bills. Also, Japanese lenders have reduced their international exposures.

Richard Koo, an economist at Nomura Research Institute in Tokyo, argues the massive foreign-asset purchases by Japanese investors during the 1980s effectively checked the yen's appreciation. But now, he adds, "foreign exchange earned by exporters has no takers at home." Douglas Ostrom, an economist at Washington's Japan Economic Institute (JEI), says that nowadays much of the dollar assets owned by Japanese are held in passive forms such as bank deposits or as payments for previously accrued foreign-currency debts.

Japanese investors are shy of venturing abroad because "over the last decade Japanese investments in foreign assets have been nothing short of a disaster," Koo contends in a recent paper. "It is estimated that the country as a whole suffered over ¥34 trillion, or US\$320 billion, in foreign-exchange losses since 1985." The only way for Japan to effectively recycle its current-account surplus, he adds, is to open its domestic market more to imports or to invest more abroad.

For Asia, the current pressures on the yen have generally been positive. JEI's Ostrom says that because most East Asian currencies are more closely aligned with the U.S. dollar than the yen, a strong Japanese currency is further incentive for Japanese firms to relocate manufacturing facilities in the region.

Yoshio Saito, an executive vice-president at Suzuki Motor, agrees. "Endaka [the strong yen] is by far the biggest headache for us," he says. "Nowadays, we really have to work towards maximising our production facilities in the rest of the region."

Still, says Andy Kim, president of New York pension fund managers Sit-Kim International Investment, there is also a downside to Asia of the yen's rapid appreciation: "The trouble is that to the extent that these companies depend so much on equipment and inputs, their imports from Japan are more expensive and their profit margins eroded."

Money Matters

Percentage change in Japanese corporate profits under various GDP and exchange-rate scenarios

— Fiscal 1994 GDP growth rate —

Yen-dollar exchange rate	0	0.5	1.0	1.5	2.0
95	-13	-6	0	8	18
100	-8	-3	3	12	29
105	0	5	11	19	41
110	3	9	15	26	55
115	5	12	28	40	62

Source: S. G. Warburg

the horizon — Japan and Germany are either at the bottom of, or are just emerging from, cyclical troughs. Ironically, fears that the Fed wouldn't move fast enough to pinch off inflation have also contributed to the dollar's slump.

Then there are the more political arguments. Economists at S. G. Warburg say the Clinton administration has followed a policy of "malign neglect" towards the dollar ever since Washington intervened on its behalf last August, when the yen and the penny last neared parity. Then, following the collapse last February of U.S.-Japan trade framework negotiations, Washington refused to say whether it would continue using dollar devaluations as a trade tool. Traders took that as a sign that it would do just that: the administration's "silence was deafening," says one trader in Tokyo.

There are also fears that political turmoil in Japan will impede a quick resolution of the U.S.-Japan trade dispute. Prime

BUSINESS BRIEFING

SOUTH KOREA

Loans Approved

The Economic Development Cooperation Fund will provide loans totalling US\$123 million in the first half of 1994 for infrastructure projects in five developing countries, officials said. The funds include US\$39 million for China, US\$35 million for the Philippines and US\$26 million for Vietnam.

CHINA

Investment Limits Eased

Beijing will allow faster economic growth than originally planned, claiming it has tamed inflation. The State Information Centre said the annual limit on growth of fixed-asset investment would be raised to 27% from 10%, raising 1994 GDP growth to 11% from the 9% rate forecast earlier.



BOB JOHNSTONE

All set for a bigger role in China.

IBM Builds Networks

IBM has agreed to work on a national credit- and debit-card system, a computerised customs-operations system, and infrastructure for nationwide computer networks. The computer giant will work with Ji Tong Communications, a firm linked to the Ministry of Electronics. The ministry said that it would promote the use and development of supporting software for IBM's Power PC chips in China.

GE Plans Expansion

U.S. industrial giant General Electric (GE) will invest US\$500 million in China in the next three to five years. Chief Executive Jeffrey Gannon said GE plans to set up seven



PRASHANT PANJARI/INDIA TODAY

Singh's budget boosts imports.

enterprises in lighting, hydropower, plastics, appliances and financial services. GE's investment subsidiary already runs more than US\$1 billion in Chinese aircraft and container-leasing operations.

INDIA

Orissa Refinery Planned

Indian industrial engineers Larsen & Toubro and U.S. aluminium giant Alcoa have begun a feasibility study for a joint-venture aluminium refinery in eastern Orissa. The project would cost around Rs 20 billion (US\$635 million).

Copper Problem

Sterlite Industries is seeking an alternative site for its planned copper smelter after residents of the coastal town of Ratnagiri in Maharashtra state protested against the project on environmental grounds. Sterlite raised US\$100 million through a global depository receipts issue in the Euromarkets late last year to help fund the project.

Imports Surge

Imports jumped suddenly in March following tariff cuts announced by Finance Minister Manmohan Singh in his February 28 budget speech. The 61% jump from the previous March, to US\$2.87 billion, brought the trade deficit for the year to March

1994 to US\$1.04 billion, double the expected figure but narrower than the year-earlier US\$3.3 billion deficit.

Paging Shinawatra

Thailand's Shinawatra International will form a joint venture with India's Himachai Futuristic Communications to operate a paging business in six Indian cities, including Bombay and Calcutta. Shinawatra will invest approximately Baht 160 million (US\$6.4 million) for a 40% stake in the new company, Microwave Communications, which has a 10-year concession to operate the paging service.

VIETNAM

Hanoi Hotel Venture

Anglo-Asian Strategic Management of the Philippines is teaming up with military contractor Company 99 in a US\$30 million joint venture to build a 12-storey hotel in Hanoi. The contract is expected to be finalised by the end of May, and construction is to start this year.

CAMBODIA

IMF Releases Funds

The IMF approved a low-cost, US\$120 million loan to help Phnom Penh rebuild its

economy. The three-year credit carries an interest rate of 0.5%. It is the fund's second loan to the country since it emerged from two decades of isolation. The first — for US\$9 million — was granted last October.

HONG KONG

Ship Lines Plan Alliance

Japan's Mitsui OSK Lines, Hong Kong's Orient Overseas Container Line, The Netherlands' Nedlloyd Lijnen and U.S.-based American President Lines are negotiating to form a shipping alliance on routes linking Asia with Europe and North America. The container-shipping lines would share space and coordinate shipping schedules.

JAPAN

Co-Op Busted

Koshin Shoji, a financial institution owned by workers at the Ministry of Posts and Telecommunications, declared sudden bankruptcy with debts of ¥101 billion (US\$1 billion). The group lent money invested by ministry employees to discount note-brokers, who lent to consumer-finance companies. Many of the loans turned sour when Japan's asset boom collapsed.

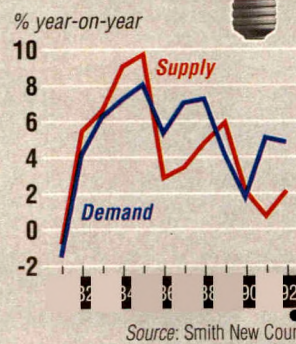
PHILIPPINES

Tax Measures Signed

President Fidel Ramos signed into law two measures intended to raise some P9 billion (US\$338 million) for the cash-strapped government: one expands the value-added tax to include the service and property sectors and the other increases the duties on stockmarket transactions to 0.5% from 0.25%. Another bill amending the build-operate-and-transfer law to make prospects more attractive to foreign investors was also enacted.

Indicators

China's energy shortfall



REVIEW GRAPHIC/FRAY LEMING

PRICES & TRENDS

Commodities

Latest sale to May 9		Latest	Previous week	3 months ago	Year ago
Gold	London (2)	381.10	376.50	386.10	355.90
Copper	New York (3)				
Current delivery (May)		95.55	91.35	89.90	76.95
July delivery		95.45			
Aluminium	London (7)				
Current delivery (May)		1,307.50	1,281.50	1,277.00	1,130.00
Tin	Kuala Lumpur (1)	14.21	14.40	14.75	14.18
Cotton	New York (3)				
Current delivery (July)		62.12	86.00	76.29	62.24
Oct. delivery		76.07			
Rubber	Kuala Lumpur (8)				
Current delivery (June)		259.50	255.50	230.50	210.00
July delivery		259.50			
Jute	Dhaka (11)	260.00	260.00	260.00	260.00
Palm Oil	Kuala Lumpur (4)				
Current delivery (May)		1,188.00	1,204.00	971.00	896.00
July delivery		1,021.00			
Sugar	New York (3)				
Current delivery (July)		11.72	11.67	11.00	12.28
Oct. delivery		11.56			
Pepper	Singapore (9)				
Sarawak Asta blk 100%		232.50	232.50	232.50	160.00
Wheat	Chicago (5)				
Current delivery (May)		323.00	326.40	371.20	347.00
July delivery		327.00			
Maize	Chicago (6)				
Current delivery (May)		259.00	269.00	292.20	227.60
July delivery		260.00			
Rice	Bangkok (7)				
5% white fob		400.00	375.00	410.00	237.00
Soyabeans	Chicago (5)				
Current delivery (May)		667.60	677.20	680.40	605.40
July delivery		667.40			
Cocoa	New York (7)				
Current delivery (May)		1,200.00	1,120.00	1,071.00	909.00
July delivery		1,217.00			
Coffee	New York (3)				
Current delivery (May)		104.20	89.15	76.10	59.15
July delivery		104.20			
Petroleum					
Sumatran light	Tokyo (10)	15.45	15.00	15.70	20.35
Brent	London (10)	15.22	15.81	14.68	19.15

(1) M\$ a kg (2) US\$ an oz (3) US\$ a lb (4) M\$ a tonne (5) US\$ a 60 lb bushel
 (6) US\$ a 56 lb bushel (7) US\$ a tonne (8) Int 1RSS Mc a kg (9) S\$ a 100 kg (10) US\$ a barrel
 (11) BWD, Chittagong/Mongla, US\$ a tonne Source: Telerate, International Jute Organisation

Currencies US\$1 worth:

May 9		Spot rate†	Previous week†	3 months ago†	Year ago†
Australia	dollar	1.3885	1.4063	1.3941	1.4239
Bangladesh*	taka	40.15	40.46	39.75	38.90
Britain	pound	0.6681	0.6598	0.6777	0.6516
Brunei	dollar	1.55	1.555	1.589	1.6115
Burma	kyat	6.1325	6.10	6.2187	6.265
Canada	dollar	1.3817	1.382	1.3285	1.2718
France	franc	5.671	5.645	5.9685	5.4155
Germany	mark	1.6544	1.6492	1.7637	1.6076
Hong Kong	dollar	7.7275	7.7255	7.724	7.7305
India*	rupee	31.3725	31.37	31.375	30.9945
Indonesia	rupiah	2,151.00	2,149.00	2,124.00	2,075.00
Japan	yen	102.93	101.63	109.33	111.45
Macau*	pataca	8.10	8.10	8.10	8.05
Malaysia	dollar	2.6145	2.6815	2.7678	2.5665
Nepal*	rupee	49.25	49.25	46.3772	46.5264
New Zealand	dollar	1.7283	1.7358	1.731	1.8352
Pakistan	rupee	30.5195	30.5195	30.2697	26.6733
Papua N.G.	kina	0.955	0.9553	0.9612	0.966
Philippines	peso	27.153	27.101	27.615	26.915
Singapore	dollar	1.55	1.555	1.589	1.6115
South Korea	won	808.30	807.90	807.60	798.30
Sri Lanka	rupee	47.585	47.497	47.848	46.8202
Switzerland	franc	1.4128	1.4027	1.4755	1.4585
Taiwan	NT dollar	26.64	26.419	26.4185	25.9475
Thailand	baht	25.20	25.17	25.46	25.24

Communist countries: China US\$=Rmb 8.6664 HK\$=Rmb 1.1216 Laos US\$=Kip 720

Vietnam US\$=Dong 10,955

Other: Commonwealth of Independent States US\$=Rouble 1,854

SDR1=US\$1.41754 ECU1=US\$1.1649 S\$1=M\$1.6865 Cambodia US\$=Riel 3,500

*Official rate †Middle rate Source: Telerate for spot rates, Dao Heng Bank Ltd. for official rates

Currency Deposit and Bond Yields

Eurocurrency and Asian currency unit deposit rates (%)†						
May 9	1 month	3 months	6 months	12 months	10 year govt bonds yield	
US\$	4.125	4.625	5.125	5.625	7.10	
Sterling	5.00	5.125	5.3125	5.8125	8.21	
Yen	2.125	2.125	2.25	2.4375	4.13	
Swiss Fr.	3.9375	3.875	3.875	3.875	—	
Dm	5.1875	5.0625	4.9375	4.9375	6.64	
A\$	4.4375	4.625	4.875	5.4375	8.80	
C\$	5.75	6.25	6.69	7.13	8.33	
ECU	5.625	5.4375	5.4375	5.4375	7.52	

†Offered rate Source: Telerate, Salomon Brothers

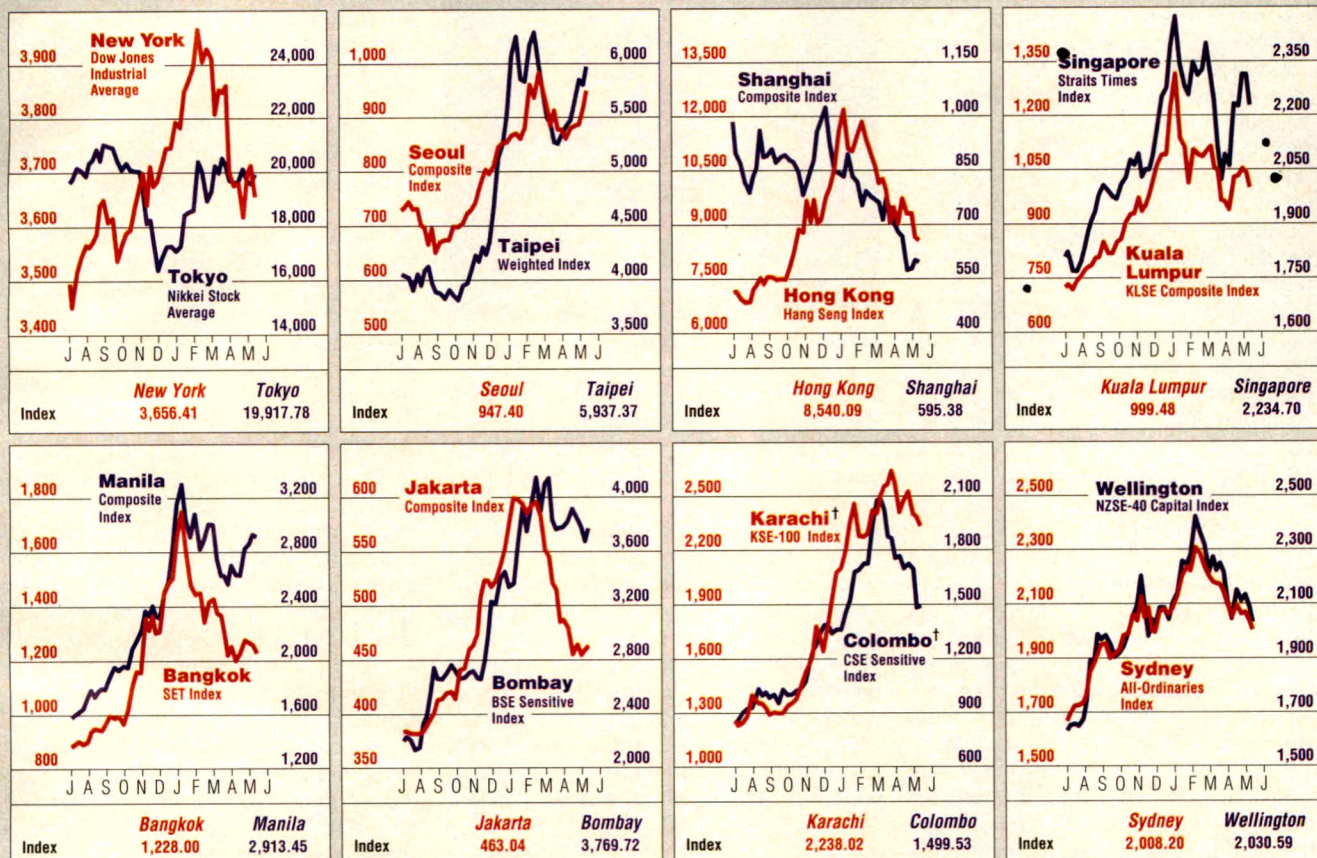
Economic Indicators, Selected Asian Countries

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia
Economic Growth % (real) (1)							
1993	2.8	13.4	5.6	4(4)	6.7	0.2	8.5
1994	3.4	9	4	5(4)	7	2.6	8.4
International Reserves (5)							
Latest	US\$11.53b (Feb)	US\$22.08b (Nov)	US\$28.9b (Dec 91)	US\$13.51b (Feb)	US\$11.37b (Jan)	US\$101.42b (Feb)	US\$27.25b (Dec)
Year earlier	US\$9.61b	US\$23.28b	n.a.	US\$5.56b	US\$10.88b	US\$72.14b	US\$17.23b
Trade Balance (total merchandise)							
Latest 3 months	+US\$0.07b (Sept-Nov)	-US\$6.04b (Nov-Jan)	-US\$1.78b (Jan-Mar)	+US\$0.02b (Dec-Feb)	+US\$1.79b (8) (Dec-Feb)	+US\$30.97b (Jan-Mar)	-US\$0.26b (Sept-Nov)
Previous 3 months	-US\$0.32b	-US\$2.46b	+US\$0.02b	-US\$0.24b	+US\$2.09b	+US\$31.34b	+US\$0.67b
Year earlier	+US\$0.15b	-US\$0.97b	-US\$1.30b	-US\$0.41b	+US\$2.30b	+US\$29.18b	+US\$0.89b
Exports (6)							
Latest 3 months	US\$10.90b	US\$27.27b	US\$31.03b	US\$5.98b	US\$8.64b (8)	US\$91.98b	US\$12.43b
% change previous 3 months	+3.5	+11.2	-14.2	+13.5	-9.1	-0.6	+2.3
% change year earlier	unchanged	+17.5	+8.6	+19.0	-6.5	+6.0	+11.0
Imports (7)							
Latest 3 months	US\$10.83b	US\$33.32b	US\$32.81b	US\$5.96b	US\$6.85b (8)	US\$61.01b	US\$12.69b
% change previous 3 months	-0.2	+23.4	-9.3	+9.1	-7.6	-0.3	+10.6
% change year earlier	+0.8	+37.8	+9.8	+11.9	-1.3	+5.9	+23.1
Consumer Prices							
Base	Jul 89-Jun 90=100	Feb. 1993=100	Oct 89-Sept 90=100 (2)	1982=100	Apr 88-Mar 89=100	1990=100	1990=100
Latest 3 months index average	110.0 (Oct-Dec)	123.2 (11) (Feb)	141.7 (Jan-Mar)	264.0 (Dec-Feb)	152.8 (Jan-Mar)	106.5 (Nov-Jan)	115.3 (Nov-Jan)
% change previous 3 months	+0.2	n.a.	+1.3	+0.8	+3.2	-0.5	+1.6
% change year earlier	+1.9	+23.2	+7.3	+5.7	+7.9	+1.0	+3.5
Money Supply (3)							
Latest	A\$241.3b (9) (Feb)	Rmb 3,007.59b (Oct-Dec)	HK\$950.53b (Mar)	Rs 4.28t (9) (Feb)	Rps 149.34t (Mar)	¥508.75t (Feb)	M\$131.97b (Nov)
% change previous month	+0.5	+9.1 (10)	+0.1	+1.6	-1.5	+0.3	-0.6
% change year earlier	+6.9	+23.6	+20.8	+14.7	+21.3	+1.5	+18.5

(1) Official and other estimates of GDP (GNP in China & Japan for fiscal year) (2) Consumer Price Index A (3) M2 or currency plus bank deposits (4) March (5) IMF definition of reserves minus gold except for Singapore

Stockmarkets

■ ■ ■ Kuala Lumpur falls sharply through the 1,000 mark ■ ■ ■ Hong Kong tumbles on interest-rate worries ■ ■ ■ Singapore declines 3.3% ■ ■ ■ Manila, Bangkok dip slightly ■ ■ ■ Seoul, Taipei gain ■ ■ ■ Tokyo advances to near 20,000 in week ended on May 10 ■ ■ ■



Morgan Stanley Capital International Index = 605.5 (May 9)

Source: †Smith New Court (Far East Ltd.)

Interest Rates (%)

Philippines	Singapore	South Korea	Taiwan	Thailand
3 4.5	9.8 6-8	4.9 6.3	6.03 6.2	7.5 7.8-8.5
US\$4.79b (Jan) US\$5.14b	US\$48.36b (Dec) US\$39.89b	US\$20.71b (Feb) US\$18.04b	US\$84.10b (Jan) US\$82.52b	US\$25.29b (Feb) US\$20.81b
-US\$1.89b (Nov-Jan) -US\$1.70b -US\$1.27b	-US\$3.17b (Dec-Feb) -US\$1.98b -US\$3.15b	-US\$2.61b (Jan-Mar) +US\$1.20b -US\$1.70b	+US\$0.25b (Jan-Mar) +US\$2.26b +US\$1.34b	-US\$2.35b (Oct-Dec) -US\$1.32b -US\$2.77b
US\$3.09b +3.1 +24.8	US\$18.57b -8.8 +14.6	US\$19.95b -13.0 +9.3	US\$20.14b -7.6 +0.5	US\$9.89b +1.3 +11.4
US\$4.96b +5.9 +33.0	US\$21.74b -2.7 +12.3	US\$22.56b +3.9 +13.1	US\$19.90b +1.9 +6.4	US\$12.25b +10.5 +5.1
1988=100 188.0 (Dec-Feb) +2.5 +9.3	Sept 87-Aug 88=100 117.5 (Dec-Feb) +1.3 +3.3	1990=100 126.9 (Jan-Mar) +2.7 +6.5	1991=100 109.5 (Dec-Feb) +2.7 +3.8	1986=100 137.1 (Oct-Dec) +0.6 +3.9
P480.02b (9) (Dec) +7.7 +24.6	S\$81.39b (Jan) -0.9 +8.6	Won 112.90t (Mar) +0.3 +15.8	NT\$10.42t (Feb) +1.4 +14.8	Baht 2,488.0b (Jan) -1.0 +16.5

(6) fob (7) cif (8) Including petroleum (9) M3 (10) % change over past 3 months (11) One month Source: Official statistics

	May 9	Prime lending	Interbank 1 month†	Interbank 3 months†	Interbank 6 months†
Australia	9.50	4.75	4.875	5.15625	
Britain	5.25	5.125	5.3125	5.50781	
Hong Kong	6.75	4.3125	4.875	5.9375	
Indonesia	18.00	12.50	13.00	13.50	
Japan	*4.40 **3.00	2.25	2.25	2.375	
Malaysia	7.10	4.15	4.25	5.15	
New Zealand	9.50	6.20	6.37	6.40	
Philippines	18.00	13.3125	13.0625	12.375	
Singapore	5.25	3.5625	3.8125	3.1875	
South Korea	††12.20	—	—	—	
Taiwan	7.625	—	—	—	
Thailand	40.25	9.00	9.00	—	
U.S.	6.75	4.4375	4.8125	5.1875	

*Long term **Short term ††Monetary Stabilisation Bond (1 year)
†Offered rate Source: Telerate and REVIEW Data

SHROFF

SINGAPORE

Try Life

Richard Li took home more than the US\$525 million that Rupert Murdoch's News Corp. paid his family for a controlling stake in StarTV last summer. He also earned credibility. Since then, the 27-year-old Li — one of Hong Kong's youngest, brashiest tycoons — has invited speculation about his next move by indulging in futuristic talk about hi-tech telecommunications ventures. But his first major investment is decidedly more down-to-earth. It's life insurance.

Li's privately held Pacific Century Group announced that it intends to buy Seapower Asia Investments, a Singapore-listed insurance and property concern. If the complex, three-step transaction goes through, it would cost Pacific Century about S\$102 million (US\$66 million) for 45.8% of the firm, whose major asset is fast-growing Top Glory Insurance.

What would Li want with insurance? Neither he nor the usually voluble managing director of Seapower International, Francis Yuen, are talking. But the life-insurance business has one of the attributes that helped Li's father, Li Ka-shing, become Hong Kong's richest man: cash. "One thing we don't lack is cash," says an executive at a rival firm, who notes that there has also been speculation that the firm could be dressed up and taken public in a few years.

It generally takes six years or so before those healthy cash flows translate into profits. Top Glory Insurance lost S\$3.9 million on revenues of S\$10 million between January 21 — when Seapower acquired it — and March 31. And it projects losses for at least two more years.

Top Glory is in the midst of an aggressive expansion. It poached hundreds of sales agents from the Hong Kong unit of rival National Mutual earlier this year, including the Australian-based insurer's Hong Kong chief. That helped Top Glory's workforce jump to more than 1,500 in March from 300 in January. The firm hopes to have 2,000 agents by March 1995 and double that by 1999.

That sort of growth will take capital infusions, particularly because heavy selling expenses mean insurance firms lose money on new policies. Two mainland Chinese-backed insurers, China Insurance Group Investment and China Insurance H.K., will inject HK\$100 million (US\$13 million) into Top Glory's immediate parent.

However, it is not money from China, but the possibility of selling insurance in



Li turns to life insurance.

China that has Hong Kong's insurers drooling. China's savers, especially the 60 million or so who live in neighbouring Guangdong province, are an alluring market.

Strife-ridden Seapower does not have the resources to fund this growth. Li Ka-shing, one of the investors who backed Yuen and who holds almost 10% of parent-company Seapower International, might have seen an opportunity to help his younger son get a taste of a real nitty-gritty business. "It may be that [Francis] was making a company available for Richard Li," says a banker who has worked with Yuen. Whatever the motives, it is a long way from MTV.

■ Mark Clifford

TAIPEI

Go Slow

It has taken a long time for Taipei to get around to privatising some government companies. Fittingly, when it sold its majority stake in Chung Kuo Insurance in late April, the auction got off to a slow start.

"The first day was a disaster," recalls Peter Kurz, head of Baring Securities' Taipei office, noting that only 7% of the shares on offer were taken up. By the third day, though, what had been a complete disaster had turned into a surprising success as buying interest suddenly materialised. That turnaround was due largely to support from several institutional investors, including the Shin Kong group, one of Taiwan's leading conglomerates with insurance and real-estate interests, and Capitol Securities.

The list of companies that wish to follow Chung Kuo's example is long. "They are all looking forward to getting the government off their backs," adds Kurz. BES

Engineering is likely to be next on the calendar, followed by Farmers Bank of Taiwan and Bank of Communications. Whether these listings will actually happen any time soon is another matter, however. "The government is learning to look at market conditions," says Benjamin Chen, who runs the Taipei office of BZW Securities. "They want to schedule the issues so they don't hit the market too drastically."

Taipei's healthy turnover is deceptive, according to local brokers; the underlying capital base supporting large daily volumes (US\$2-3 billion) is still shallow. One obvious way to deepen that base would be to loosen the rules on foreign investment. But that pits the Ministry of Finance, a firm advocate of selling state assets, against the central bank. The central bank, which oversees capital inflows, is reluctant to liberalise further.

Many in the government have an additional concern. "They are sensitive about losing control of their economy," says the country head of one foreign bank in Taipei. "They see Hong Kong companies infiltrated by [mainland Chinese] interests through the stockmarket, paying non-economic prices for political objectives. They don't want that to happen here."

But the government is also under pressure from its charges. At the Bank of Communications, Chairman Liang Kuo-shu is pressing for at least partial privatisation involving a minimum of 10% of the bank's shares. (The government currently has a 98% stake.) "The government is reluctant to inject more capital," he says. "But we need to increase our capital base soon" because of rules from the Bank for International Settlements in Basel. "If they combine a policy of listing the banks with a policy of letting more foreign investment in, then the impact on the stockmarket wouldn't be so big."

One alternative the government is now considering is to let its charges list elsewhere. Officials of the Ministry of Economic Affairs were quoted in the local press as saying that China Steel may list on the New York Stock Exchange, becoming the first Taiwanese company to do so. This follows the drastic under-subscription of a public offer of China Steel shares a few weeks ago.

At least the government cannot be accused of being greedy when it reduced its stake in Chung Kuo, a property insurer, to 47.5% from 85%. "The regulators want to protect individual investors first," says Kurz. "They make sure they get a cheap, safe price." Chung Kuo made its debut at a price level far below that of the two other listed non-life companies. ■ Henny Sender

The EU's construction firms forge closer links

As the countries of the European Union begin to move out of recession, the outlook for construction is brightening. Yet even with lower interest rates, which tend to boost housing starts in particular, investment in construction will achieve hardly any increase in 1994. It will be at least another year before the gradual revival of business investment begins to feed through to commercial construction. At the same time, expenditure by public-sector authorities is severely restricted by consolidation measures in most countries.

With its workforce of 8.5 million, construction is one of the EU's key industries: investment in construction accounts for almost a tenth of its combined GDP. Small to medium-sized firms, which number almost 1 million, predominate in the EU despite a higher degree of concentration in the UK and France. The UK boasts eight of Western Europe's 20 largest contractors and France seven, but only two are based in Germany.

Fiercer competition

While construction is still very much a national or local business, inter-company links in the EU have become more important in recent years. Obviously, many firms recognise the huge potential of the Single Market, which since the creation of the European Economic Area now includes the EFTA states, except for Switzerland. For one thing, there is great demand for new housing in some countries. For another, international competition for large-scale contracts is bound to intensify, especially for infra-

"More liberal rules for public procurement are helping to create an integrated market."

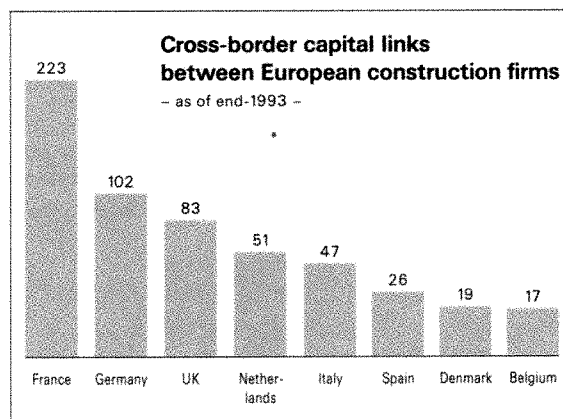
structure projects, where priority will most likely be given to modernising waste-water and sewage treatment systems, above all in coastal regions.

The development of an integrated construction market – with Europe-wide competition – has been spurred by the Commission's directives on public procurement, which establish rules for the awarding of construction contracts in excess of DM10m. At the same time, discriminatory practices have been abolished, building standards harmonised, and the legal situation made more transparent throughout the European Union.

Most of the expansion in contractors' cross-border activities has tended to be through direct investment in other EU countries. As it is hard for firms to serve their customers from afar, virtually all the major companies have either set up subsidiaries abroad, or acquired partial or full control of existing firms.

In mid-1993, there were roughly 750 cross-border shareholdings – a sixth more than a year earlier – and by no means all of them involved large firms. French companies are the most acquisitive. By contrast, German firms

have become the most attractive investment targets over the past three years, thanks to the privatisation process in eastern Germany. Most of the major contractors have opted to establish operations of their own there or have acquired small local specialised firms. Apart from western German companies, investors from France and Austria have shown especially strong



Source: European International Constructors (EIC)

interest. By last year, the largest number of investments by foreign construction firms had been registered by Germany (144), followed by Spain (91), the UK (78), Belgium (65), France and the Netherlands (50 each).

So far, the advent of the Single European Market has not predominantly been reflected in a surge in companies tendering for contracts outside their home countries, but rather in the systematic development of a network of holdings across the EU – a trend which will certainly continue.

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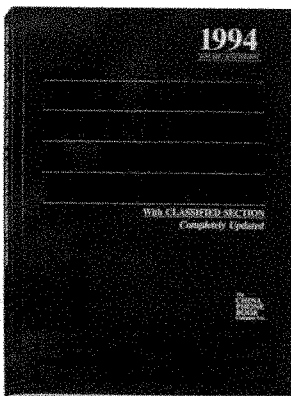
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JONATHAN FRIEDLAND

PROFILE

Nobuko Ochiai
Japan

Mrs. Baseball

The flamboyant wife of the country's best-known baseball player becomes a star herself

By Jonathan Friedland

Japanese baseball wives are supposed to be seen and not heard. Nobuko Ochiai, the wife of Tokyo Giants slugger Hiromitsu Ochiai, is making a career out of being a flamboyant exception.

She has become a best-selling author and tabloid celebrity by bluntly pointing out her husband's many foibles and explaining how she's fixed them. In two books, Nobuko has written herself a role as the ultimate Japanese Super-Mom. As for her earthy husband, he's portrayed as a hapless human work-in-progress.

Nobuko has also set herself apart by being gleefully immodest on the subject of money, telling local journalists that she'll only talk to them if paid and carping loudly about how much the Ochiai clan pays in taxes. And by complaining that her husband, a three-time Triple Crown winner, is grossly undercompensated in comparison to his American counterparts, she's long been a thorn in the side of Japan's conservative baseball establishment.

Last year, she got some joy on that front when a free-agent system was introduced for the first time. Nobuko immediately and publicly urged her husband, then the top infielder and hitter of the Nagoya-based Chunichi Dragons, to forsake team loyalty and trade up for bigger bucks.

And so he did. The sleepy-eyed Ochiai just started his first season with the Giants at an annual salary of ¥360 million (US\$3.5 million), a record for Japanese baseball but far short of what star players command in the United States. Still, it's not bad for a 40-year-old player who dominated the game during the early and mid-1980s but is clearly past his prime.

"Everyone was speculating about what we would do," recalls Nobuko of Japan's hyper-active sports press. "I thought about chopping up Ochiai and selling his right

arm for a million, his left arm for a million and so on," she cracks. "After all, he was batting fourth and had a permanent first base position at Chunichi."

But the 49-year-old Nobuko isn't one to carve up her golden goose. For the sake of her six-year-old son, she's made it her business to burnish the family name and that of baseball itself. Japan's national game has been eclipsed in recent years by a new professional soccer league, called J League.

That's one reason why Nobuko says she has opened the Hiromitsu Ochiai Baseball Memorial Hall in the backwoods of Wakayama Prefecture even as her husband is still out there fielding ground balls. The hall, which includes a uniform- and trophy-stuffed museum and astro-turf practice facilities, "is not just for Ochiai's glory," says Nobuko. "Baseball is declining in popularity and we'd like to help bring children back to the game."

Nobuko, who hails from a merchant family from Ueda in the Japan Alps and

ran a jewellery business when she first came to Tokyo, didn't always exercise such clout over Ochiai. "Right after we got married, my husband steered the ship and I played the cute wife," says Nobuko who married in 1983 after two years of courtship. "Everything we did failed. I decided my husband should only hold the bat and I would take care of everything else."

According to Nobuko, she actually had little choice; her husband was a lazy sloth who didn't go to practice, drank too much and subsisted on a diet of instant noodles. Not that this had particularly hurt Ochiai. Throughout his 16-year career in the major leagues, he'd shunned discipline, been ambivalent to team spirit and grew a pot belly. Yet, he still managed to lead first the Lotte Orions and then the Dragons in home-runs.

Compare that to the ever-practical Nobuko. Although her fiancé was one of Japan's highest-paid athletes she used to bide her time waiting for him to show up by playing pachinko, a Japanese pinball game. She got so good, she recounts, that through her earnings, she was able to keep Ochiai dressed in underwear and socks for years.

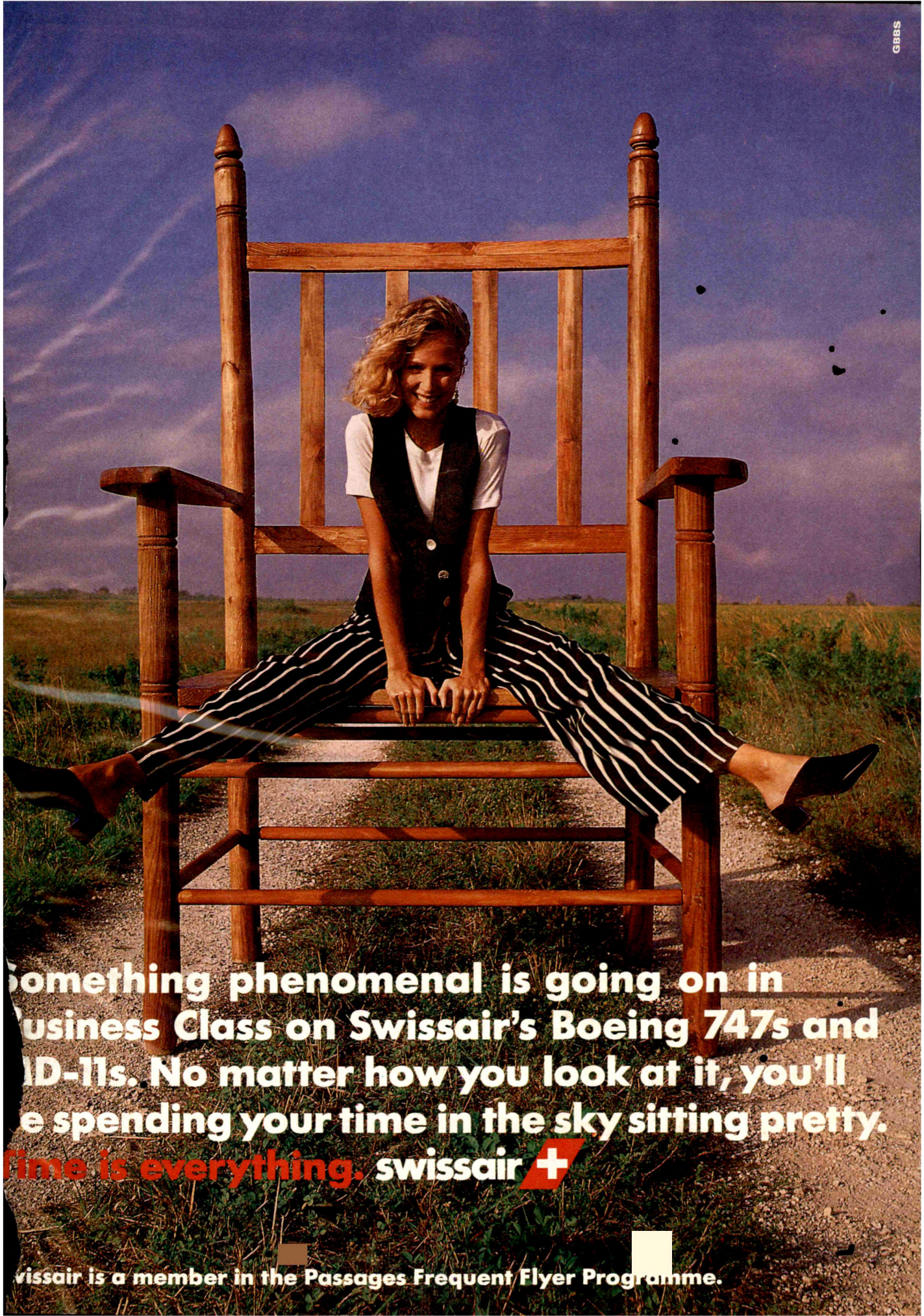
"I've rearranged his personality," boast Nobuko. Indeed, her first book, *How A Bad Wife Makes a Good Husband*, catalogues in numbing detail just how she wrapped Ochiai around her little finger before straightening him out. "Now everyone looks at Hiromitsu and says 'What a gentleman.'" A second book, largely about bringing up her young son, repeats many of the same themes.

But while Nobuko is clearly a powerful woman, she doesn't appear to define herself as a feminist. "I want more females to come out of their shells and to say what's on their mind," she explains, "in order to contribute to the success of their husbands."



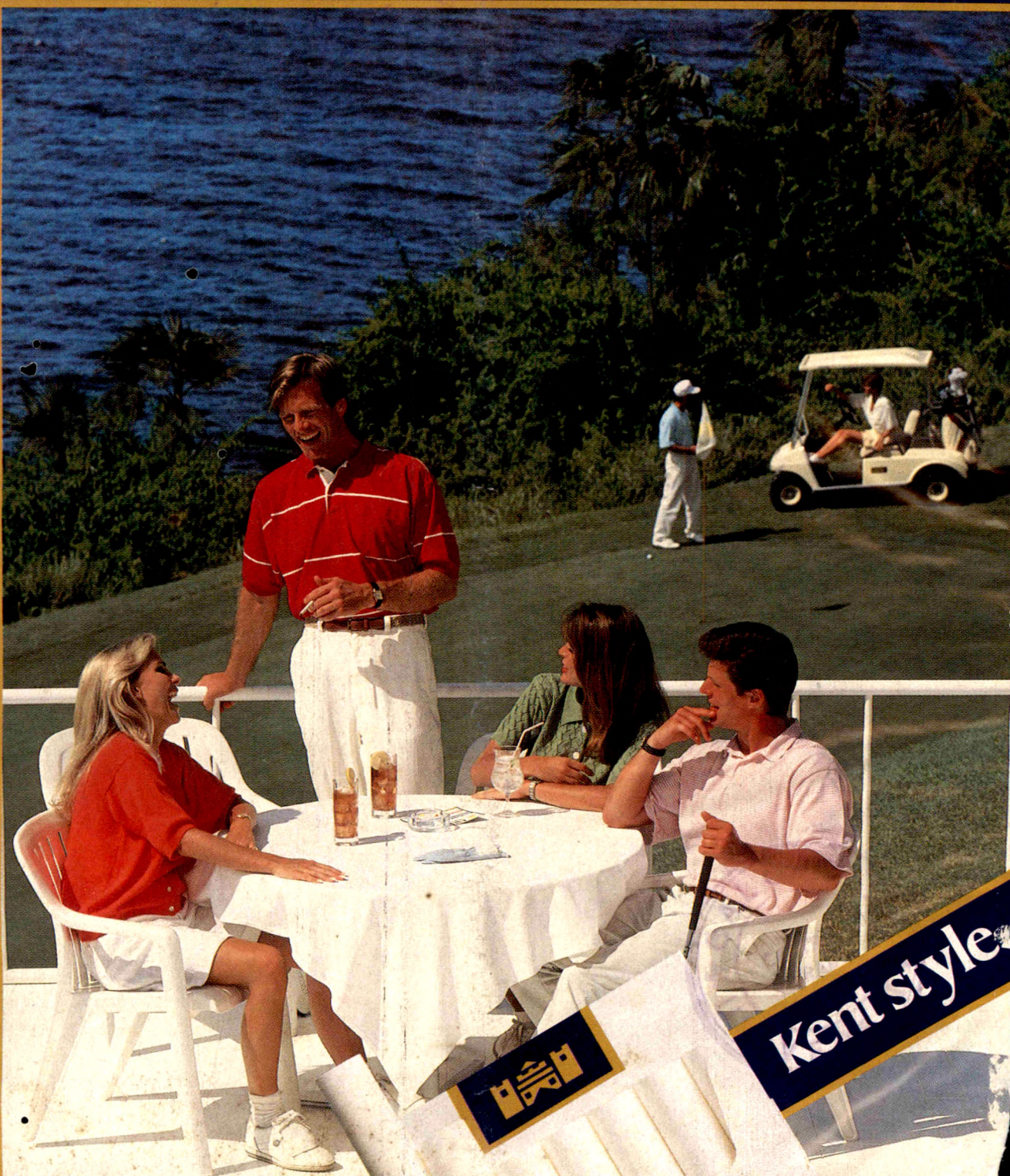
TOKYO YOMIURI GIANTS

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